

CHINA EASTERN AIRLINES CORP LTD  
Form 20-F  
April 26, 2019

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2018**

**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**  
(Translation of Registrant's Name Into English)      **The People's Republic of China**  
(Jurisdiction of Incorporation or Organization)  
**5/F, Block A2, Northern District, CEA Building**

**36 Hongxiang 3rd Road, Minhang District, Shanghai**

**People's Republic of China**

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**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:**

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

\* 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, 2018, 9,808,485,682 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 4,659,100,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H

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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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging Growth Company  
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 Other

by the International Accounting Standards Board

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

Item 17 Item 18

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



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## SUPPLEMENTAL INFORMATION

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; 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; the term “SGD” refers to Singapore dollars, the lawful currency of the Republic of Singapore; the term “JPY” refers to Japan Yen, the lawful currency of Japan; the term “EUR” refers to EURO, the lawful currency of EMU member countries and the term “KRW” refers to Korea Won, the lawful currency of the Republic of Korea. Any discrepancies in the tables included herein between the amounts listed and the totals are due to rounding.

In this Annual Report, the term “we”, “us”, “our”, “our/the Company”, or “our Group” 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, 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.

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

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

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

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

the impact of macroeconomic fluctuations (including the fluctuations of oil prices, and interest and exchange rates);

certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;

our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;

our expansion plan of the cargo operations;

our expansion plans, including possible acquisition of other airlines;

our marketing plans, including the establishment of additional sales offices;

our plan to add new pilots; and

the impact of unusual events on our business and operations.

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

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

any changes in the regulatory policies of the CAAC;

the development of the high-speed rail network in the PRC;

fluctuations of interest rates and foreign exchange rates;

the availability of qualified flight personnel and airport facilities;

the effects of competition on the demand for and price of our services;

the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;

any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen, Singapore dollar, Korea Won or Euro, the currencies in which the majority of our borrowings are denominated;

our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and

general economic conditions in markets where we operate.

### **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                 |
| <b>revenue freight tonne-kilometers or RFTK</b>                          | cargo and mail load in tonnes multiplied by the distance flown                    |
| <b>revenue passenger tonne-kilometers or RPTK</b>                        | passenger load in tonnes multiplied by the distance flown                         |
| <b>revenue tonne-kilometers or RTK</b>                                   | load (passenger and cargo) in tonnes multiplied by the distance flown             |
| <i>Load factors</i>  |   |
| <b>overall load factor</b>   | tonne-kilometers expressed as a percentage of ATK                                 |
| <b>passenger load factor</b>   | passenger-kilometers expressed as a percentage of ASK                             |
| <i>Yield and cost measurements</i>                                       |   |
| <b>passenger yield (revenue per passenger-kilometer)</b>                 | revenue from passenger operations divided by passenger-kilometers                 |
| <b>cargo and mail yield (revenue per cargo and mail tonne-kilometer)</b> | revenue from cargo and mail operations divided by cargo and mail tonne-kilometers |
| <b>average yield (revenue per total tonne-kilometer)</b>                 | revenue from airline operations divided by tonne-kilometers                       |
| <b>unit cost</b>   | operating expenses divided by ATK   |
| <b>Tonne</b>   | a metric ton, equivalent to 2,204.6 lbs   |

## PART I

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

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### A. Selected Financial Data

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

Our consolidated financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 included in this Annual Report on Form 20-F have been prepared in accordance with IFRSs.

We make an explicit and unreserved statement of compliance with IFRSs with respect to our consolidated financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 included in this Annual Report. Ernst & Young Hua Ming LLP, our current independent registered public accounting firm in the PRC, has issued an unqualified auditor's report on our consolidated statement of financial position as of December 31, 2018 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2018. The selected financial data from the consolidated profit or loss and other comprehensive income for the years ended December 31, 2017 and the selected financial data from the consolidated financial position as of December 31, 2017 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRSs, and audited by Ernst & Young Hua Ming LLP. The selected financial data from the consolidated profit or loss and other comprehensive income for the years ended December 31, 2014, 2015 and 2016 and the selected financial data from the consolidated financial position as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRSs, and audited by Ernst & Young, an independent registered public accounting firm in Hong Kong.

The following tables present selected consolidated profit or loss and comprehensive income data for the years ended December 31, 2014, 2015, 2016, 2017 and 2018 and selected consolidated statements of financial position data as of December 31, 2014, 2015, 2016, 2017 and 2018 that were prepared under IFRSs. The selected financial information as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 has been derived from, and should be read in conjunction with, the audited consolidated financial statements and their notes included elsewhere in this Annual Report.

|   | Year Ended December 31,                                    |          |          |           |           |
|---|--|----------|----------|-----------|-----------|
|   | 2014   | 2015     | 2016     | 2017      | 2018      |
|   | RMB  | RMB      | RMB      | RMB       | RMB       |
|   | <i>(in RMB millions, except per share or per ADS data)</i> |          |          |           |           |
| <b>Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:</b> |  |          |          |           |           |
| Revenues  | 90,185   | 93,969   | 98,904   | 102,475   | 115,278   |
| Other operating income and gains  | 3,685  | 5,269    | 5,469    | 7,481     | 6,592     |
| Operating expenses <sup>(1)</sup>   | (87,812)   | (86,613) | (91,887) | (100,525) | (112,561) |
| Operating profit  | 6,058  | 12,625   | 12,486   | 9,431     | 9,309     |
| Finance income / (costs), net   | (2,072)  | (7,110)  | (6,176)  | (1,072)   | (5,657)   |
| Profit before income tax  | 4,113  | 5,667    | 6,497    | 8,610     | 3,856     |
| Profit for the year attributable to the equity holders of the Company                 | 3,410  | 4,537    | 4,498    | 6,342     | 2,698     |
| Basic and fully diluted earnings per share <sup>(2)</sup>                             | 0.27   | 0.35     | 0.33     | 0.44      | 0.19      |
| Basic and fully diluted earnings per ADS  | 13.45  | 17.5     | 16.5     | 22.0      | 9.5       |

Notes:

- (1) including gain on fair value changes of derivative financial instruments of RMB11 million, RMB6 million, RMB2 million and RMB311 million for the years ended December 31, 2014, 2015, 2016 and 2018, respectively, and loss on fair value changes of derivative financial instruments of RMB311 million for the year ended December 31, 2017.
- (2) The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue. The calculation of earnings per share for 2016 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 13,811,136,000 ordinary shares in issue. The calculation of earnings per share for 2017 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue. The calculation of earnings per share for 2018 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue.

|  | As of December 31, |      |      |      |      |
|--|--------------------|------|------|------|------|
|  | 2014               | 2015 | 2016 | 2017 | 2018 |
|  | RMB                | RMB  | RMB  | RMB  | RMB  |

(in RMB millions)

**Consolidated Statements of Financial Position Data:**

|  |          |          |          |          |           |
|--|----------|----------|----------|----------|-----------|
| Cash and cash equivalents  | 1,355    | 9,080    | 1,695    | 4,605    | 646       |
| Net current liabilities  | (42,887) | (51,309) | (52,194) | (62,035) | (57,132)  |
| Non-current assets   | 147,586  | 174,914  | 196,436  | 211,434  | 223,085   |
| Long term borrowings, including current portion                                    | (41,210) | (43,675) | (29,749) | (28,842) | (32,506)  |
| Obligations under finance leases, including current portion                        | (38,695) | (52,399) | (61,041) | (66,868) | (77,427)  |
| Total share capital and reserves attributable to the equity holders of the Company | 29,974   | 37,411   | 49,450   | 55,360   | 58,008    |
| Non-current liabilities  | (72,928) | (83,674) | (91,876) | (90,621) | (104,352) |
| Total assets less current liabilities  | 104,699  | 123,605  | 144,242  | 149,399  | 165,953   |
| Total assets   | 165,829  | 197,992  | 212,324  | 229,727  | 239,017   |
| Net assets   | 31,771   | 39,931   | 52,366   | 58,778   | 61,601    |

## Selected Operating Data

The following table sets forth certain of our operating data for the five years ended December 31, 2018, which is not audited. All references in this Annual Report to our cargo operations, statistics or revenues include figures for cargo and mail.

|   | 2014      | 2015       | Year Ended December 31,               |                                   |                                       |                                   | 2018      |
|---|-----------|------------|---------------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|-----------|
|   |           |            | 2016<br>(non-comparable<br>basis) (1) | 2016<br>(comparable<br>basis) (2) | 2017<br>(non-comparable<br>basis) (3) | 2017<br>(comparable<br>basis) (4) |           |
| <b>Selected Airline Operating Data:</b>                                       |           |            |                                       |                                   |                                       |                                   |           |
| <b>Capacity:</b>  |           |            |                                       |                                   |                                       |                                   |           |
| ATK (millions)  | 22,538.5  | 25,203.0   | 28,002.3                              | 25,097.6                          | 27,396.9                              | 27,136.6                          | 29,936.5  |
| ASK (millions)  | 160,585.1 | 181,792.9  | 206,249.3                             |                                   | 225,996.3                             |                                   | 244,841.0 |
| AFTK (millions)   | 8,085.8   | 8,841.7    | 9,439.9                               | 6,535.2                           | 7,057.3                               | 6,797.0                           | 7,900.8   |
| <b>Traffic:</b>   |           |            |                                       |                                   |                                       |                                   |           |
| <b>Revenue</b>  |           |            |                                       |                                   |                                       |                                   |           |
| passenger-kilometers (millions)   | 127,749.9 | 146,342.43 | 167,529.2                             |                                   | 183,182.0                             |                                   | 201,486.0 |
| Revenue tonne-kilometers (millions)   | 16,122.4  | 17,820.4   | 19,712.9                              | 17,333.1                          | 18,856.1                              | 18,651.3                          | 20,358.4  |
| Revenue freight tonne-kilometers (millions)                                   | 4,802.4   | 4,865.1    | 4,875.2                               | 2,495.4                           | 2,663.0                               | 2,458.2                           | 2,588.3   |
| Hours flown (thousands)   | 1,625.1   | 1,804.4    | 1,956.5                               | 1,918.8                           | 2,072.7                               | 2,069.3                           | 2,206.0   |
| Number of passengers carried (thousands)                                      | 83,811.5  | 93,780.0   | 101,741.6                             |                                   | 110,811.4                             |                                   | 121,199.7 |
| Weight of cargo carried (millions of kilograms)                               | 1,363.3   | 1,399.4    | 1,395.0                               | 929.3                             | 933.3                                 | 894.3                             | 915.1     |
| <b>Load Factor:</b>   |           |            |                                       |                                   |                                       |                                   |           |
| Overall load factor (%)   | 71.5      | 70.7       | 70.4                                  | 69.1                              | 68.8                                  | 68.7                              | 68.0      |
| Passenger load factor (%)   | 79.6      | 80.5       | 81.2                                  |                                   | 81.1                                  |                                   | 82.3      |
| <b>Yield and Cost Statistics (including fuel surcharge) (RMB):</b>            |           |            |                                       |                                   |                                       |                                   |           |
| Passenger yield (passenger revenue/ passenger-kilometers)                     | 0.61      | 0.56       | 0.52                                  |                                   | 0.52                                  |                                   | 0.54      |
| Cargo and mail yield (cargo and mail revenue/cargo and mail tonne-kilometers) | 1.55      | 1.33       | 1.25                                  | 1.25                              | 1.36                                  | 1.36                              | 1.40      |
| Average yield (passenger and cargo revenue/ tonne-kilometers)                 | 5.28      | 4.94       | 4.71                                  | 5.18                              | 5.25                                  | 5.30                              | 5.53      |
| Unit cost (operating expenses/ATK)  | 3.90      | 3.44       | 3.28                                  | 3.66                              | 3.67                                  | 4.15                              | 3.76      |

Notes:

- (1) On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment Company Limited ( Eastern Airlines Industry Investment ), in relation to the transfer of 100% equity interests in Eastern Airlines Logistics Co., Ltd. ( Eastern Logistics ) held by us to Eastern Airlines Industry Investment. China Cargo Airlines Co., Ltd ( China Cargo Airlines ), a non-wholly owned subsidiary of Eastern Logistics, operated nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. Under non-comparable basis, our operating data in 2016 included our whole cargo freight data during the period from February to December 2016.
- (2) Under comparable basis, our operating data in 2016 did not include our whole cargo freight data during the period from February to December 2016.
- (3) Under non-comparable basis, the operating data in 2017 included our whole cargo freight data in January 2017.
- (4) Under comparable basis, the operating data in 2017 did not include our whole cargo freight data in January 2017.

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Risk Factors**

**Risks Relating to our Business**

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

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

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

We have a substantial amount of debt, lease and other financial obligations, and will continue to do so in the future. As of December 31, 2018, our total liabilities were approximately RMB177,416 million and our current liabilities exceeded our current assets by approximately RMB57,132 million. Our total interest-bearing liabilities (including long-term and short-term borrowings, finance leases payable and bonds payable) as of December 31, 2017 and 2018 were approximately RMB130,669 million and RMB132,579 million, respectively, of which short-term liabilities accounted for approximately 37.0 % and 29.1%, respectively. Our substantial indebtedness and other financial obligations could materially and adversely affect our business and operations, including being required to dedicate additional cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage compared to competitors with lower debt, limiting our ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us.

Moreover, we are largely dependent upon cash flows generated from our operations and external financing 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 also try to secure sufficient financing through financing arrangements with domestic and foreign banks in China as well as from debt and equity capital markets. However, our ability to obtain financing may be affected by our financial position and leverage, our credit rating and investor perception of the aviation industry, as well as prevailing economic conditions and the cost of financing in general. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

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



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

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2018, we had total unutilized credit facilities of approximately RMB56.2 billion from various banks. We expect to roll over these bank facilities in the near future. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to roll over our bank facilities or continue to obtain bank guarantees in the future. Unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financing or other additional financing on acceptable terms. In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft.

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

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

Jet fuel is one of the major expenses of airlines. Significant fluctuations of international oil prices will significantly impact jet fuel prices and our revenue from fuel surcharge and accordingly our results of operations. In 2018, our total aircraft fuel cost was approximately RMB33,680 million, representing an increase of approximately 34.0 % from approximately RMB25,131 million in 2017, which was mainly due to an increase in average price of oil as the increased oil production volume of Organization of Petroleum Exporting Countries ( OPEC ) and other oil suppliers was lower than that the market expected and the political upheaval in the Middle East and Venezuela increased the uncertainty of oil production, and to a lesser extent, an increase in our volume of refueling from 2017 to 2018. In 2018, our total aircraft fuel cost accounted for approximately 29.9% of our total operating expenses, as compared to approximately 25.0% in 2017.

The fluctuations of international crude oil prices and adjustments on domestic jet fuel prices by the National Development and Reform Commission (the NDRC ) have a significant impact on our profitability. Our results of operation and financial condition are affected by any significant fluctuations that may occur, which are generally due to factors beyond our control. As such, we generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges, which, however, are subject to government regulations. In order to control fuel costs, we have also entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years.

Since 2009, the PRC government required prior governmental approval for entering into fuel hedging contracts. We may, from time to time, seek approval from the PRC government to enter into overseas fuel hedging contracts. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant decline in fuel prices may substantially increase the costs associated with such fuel hedging arrangements. In addition, where we may, from time to time, seek to manage the

risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, such fuel hedging transactions will provide any particular level of protection against increased fuel costs. In 2018, we did not engage in any aviation fuel hedging activities.

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

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in foreign currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As of December 31, 2018, our total interest-bearing liabilities denominated in foreign currencies amounted to approximately RMB40,082 million, of which U.S. dollar liabilities accounted for approximately 71.1%. Therefore, a significant fluctuation in the U.S. dollar exchange rates will subject us to significant foreign exchange loss/gain arising from the exchange of foreign currency denominated liabilities, which would affect our profitability and business development. We typically use hedging contracts for foreign currencies to reduce the foreign exchange risks for foreign currency revenues generated from flight ticket sales and expenses required to be paid in foreign currencies. As of December 31, 2018, the outstanding foreign currency hedging contracts held by us amounted to a notional amount of US\$655 million, which will expire in 2019, compared with US\$829 million as of December 31, 2017.

We recorded net foreign exchange losses of approximately RMB2,040 million in 2018, whereas we recorded net foreign exchange gains of approximately RMB2,001 million for 2017. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, our results would be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future. In 2017 and the first quarter of 2018, we expanded our financing channels by issuing guaranteed bonds and credit enhanced bonds denominated in SGD and JPY, and proactively optimized the mix of currency denomination of our debts. As of December 31, 2018, our proportion of U.S. dollar-denominated debts out of our total liabilities decreased to approximately 21.5% from 28.2% as of December 31, 2017. Our foreign exchange fluctuation risks are also subject to other factors beyond our control.

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

Our total interest-bearing liabilities (including long-term and short-term bank borrowings, finance leases payables, bonds payable and super short-term debentures) as of December 31, 2017 and 2018 were approximately RMB130,669 million and RMB132,579 million, respectively, of which short-term liabilities accounted for approximately 37.0% and 29.1%, respectively, and long-term liabilities accounted for approximately 63.0% and 70.9%, respectively. Most of the long-term interest-bearing liabilities were liabilities with floating interest rates. Both the short-term liabilities and long-term interest-bearing liabilities were affected by fluctuations in current market interest rates.

Our interest-bearing liabilities were primarily denominated in RMB and USD. As of December 31, 2017 and December 31, 2018, our liabilities denominated in RMB accounted for approximately 64.2% and 69.8% of our total liabilities, respectively, and liabilities denominated in USD accounted for approximately 28.2% and 21.5% of our total liabilities, respectively. Fluctuations in interest rates of interest-bearing liabilities denominated in these two currencies have and will continue to have significant impact on our finance costs. As of December 31, 2018, the average interest rates of our RMB-denominated liabilities, USD-denominated liabilities, EUR-denominated liabilities, SGD-denominated liabilities, KRW-denominated liabilities and JPY-denominated liabilities was approximately 4.1%, 3.4%, 0.2%, 2.8%, 2.3% and 0.6%, respectively. In the first quarter of 2018, we also issued credit enhanced bonds denominated in JPY with total principal of JPY50.0 billion due in 2021, bearing fixed interest at the rate of 0.33% per annum and 0.64% per annum for different tranches. To cope with the risk of interest rate fluctuation, we strategically changed our debt portfolio by replacing our USD-denominated liabilities with floating interest rates with USD-denominated liabilities with fixed interest rates. As of December 31, 2018, our USD-denominated liabilities with fixed interest rate was approximately USD367 million and accounted for approximately 11.1% of our total long-term USD-denominated liabilities, increasing from approximately 7.6% as of December 31, 2017. As of December 31,

2018, our outstanding foreign currency interest rate swap contracts amounted to a notional amount of USD1,102 million, as compared to USD1,420 million as of December 31, 2017. These contracts will expire between 2019 and 2025. We will continue to optimize our liability structure to lower relevant risks by taking consideration of various factors including the market environment, interest rates and strategic plan. However, we cannot assure you that the relevant lending rates may not increase in the future for reasons beyond our control, which may adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

***Increases in insurance costs or reductions in insurance coverage may have adverse impact our results of operations and financial condition.***

We could be exposed to significant liability or loss if our property or operations were to be affected by a natural catastrophe or other event, including aircraft accidents. We maintain insurance policies but we are not fully insured against all potential hazards and risks incident to our business. If we are unable to obtain sufficient insurance with acceptable terms or if the coverage obtained is insufficient relative to actual liability or losses that we experience, whether due to insurance market conditions, policy limitations and exclusions or otherwise, our results of operations and financial condition could be adversely affected.

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

We may from time to time expand our business through acquisition of airlines or airline-related businesses. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. See Item 4. Information on the Company for details. However, such acquisitions involve uncertainties and a number of risks, including:

difficulty with integrating the assets, operations and technologies of the acquired airlines or airline-related businesses, including their employees, corporate cultures, managerial systems, processes, procedures and management information systems and services;

complying with the laws, regulations and policies that are applicable to the acquired businesses;

failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airlines or airline-related businesses;

managing relationships with employees, customers and business partners during the course of integration of new businesses;

attracting, training and motivating members of our management and workforce;

accessing our debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;

diverting significant management attention and resources from our other businesses;

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

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

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

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

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

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

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

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

Most of the major airlines in China are currently majority-owned by either the central government or provincial or municipal governments in China. As of December 31, 2018, CEA Holding holds directly or indirectly 56.38% of our Company's equity stake on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of the board of directors of the Company ( Board of Directors or the Board ) and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC government as the ultimate controlling shareholder of our Company and most of the other major PRC airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, we cannot assure you that the CAAC will not favor other PRC airlines over our Company.

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

mergers or other business combinations;

acquisition or disposition of assets;

issuance of any additional shares or other equity securities;

the timing and amount of dividend payments; and

the management of our Company.

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

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

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

We are required under relevant United States securities laws and regulations to disclose in the reports that we file or submit under the Exchange Act to the SEC, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal controls over financial reporting at the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2018. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such

deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to diminished investor confidence in the reliability of our consolidated financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

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



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

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

***We are subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.***

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

Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants, costs incurred in connection with the notifications to employees, suppliers or the general public as part of our notification obligations to the various government authorities that govern our business, or costs to dedicate significant resources to system repairs or other increase cyber security protection. We may also be required to pay fines in connection with stolen customer, employee or other confidential information, or incur significant litigation or other costs.

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

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

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

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volumes and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a

highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. In addition, in April 2013, there has been an ongoing outbreak of the H7N9 strain of avian flu, which has largely been centered in eastern China, and has resulted in fatalities in that region, including Shanghai. Furthermore, in 2014, an outbreak of Ebola virus, a highly contagious hemorrhagic fever with a relatively high fatality rate, in certain African countries resulted in confirmed cases in the United States and Europe. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or the effects of another outbreak of SARS, any strain of avian flu or Ebola may have on our business.

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

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

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

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

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

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

route allocation;

pricing of domestic airfares;

administration of air traffic control systems and certain airports;

jet fuel pricing;

air carrier certifications and air operator certification;

aircraft registration and aircraft airworthiness certification; and

airport expense policy.

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

***The downward trend in domestic and global economy could affect air travel.***

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of global and local economies, low unemployment, strong consumer confidence and availability of consumer and business credit. In 2018, the global economy generally continued to recover, yet with the emergence of the influence of trade protectionism and unilateralism, the growth of the global economy has slowed down. In China, the economy remained in a reasonable range as a whole, whilst facing the pressure of downturn. The global airline industry has continued to grow with a deceleration in growth rate. China's civil aviation industry continued to maintain a more rapid above double-digit growth rate, while at the same time also facing challenges such as rise in fuel average prices, fluctuations in RMB-USD exchange rate, intensifying market competition and constraints in core time period resources. However, we cannot assure you that such recovery and growth will continue in the future. The global economy is facing uncertainties, such as the rise of trade protectionism and the occasional occurrence of geopolitical risks. If the macroeconomic climate worsens or trading dispute and conflicts are created, our operations and financial condition may be adversely affected.

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

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

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

The PRC government is aggressively implementing the expansion of its high-speed rail network, which has provided train services at a speed of up to 350 kilometers per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of rail network, improvements in railway service quality, increased passenger capacity and urban center accessibility could enhance the competitiveness of the railway service and negatively affect our market share on some of our key routes, in particular our routes of between 500 km to 800 km. The high-speed railway routes in Yunnan Province gradually commenced operations in 2018, and has affected our routes in Yunnan Province. Increased competition and pricing pressures from the railway service may have an adverse effect on our business, financial condition and results of operations.

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

The current CAAC policies limit foreign ownership of PRC airlines. Under these rules, non-PRC, Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline. As of December 31, 2018, approximately 32.20% 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 us to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will not increase these limits on foreign ownership of PRC airlines in the future.

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

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

In 2018, fuel prices recovered from the previous decline which was mainly due to an increase in average price of oil as the increased oil production volume of OPEC and other oil suppliers was lower than that the market expected and the

political upheaval in the Middle East and Venezuela increased the uncertainty of oil production. Setting aside the adjustment in factors such as fuel surcharge, if the average price of jet fuel had increased or decreased by 5%, our jet fuel costs would have increased or decreased by approximately RMB1,684 million in 2018. In addition, the NDRC adjusts gasoline and diesel prices in China from time to time, taking into account the changes in international oil prices, thereby affecting aviation fuel prices. In 2018, we have not conducted aviation fuel hedging activities. As such, we cannot assure you that jet fuel prices will not fluctuate further in the future. Due to the highly competitive nature of the airline industry, we may be unable to fully or effectively pass on to our customers any future increase in jet fuel costs.

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

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

We have significant expenditures in respect of environmental compliance, which may affect our operations and financial condition. For example, 30 of our B737NG and 21 of our A320 series aircraft completed modification with a winglet or sharklet, an additional lifting surface to reduce fuel consumption and noises, in 2018. We also took measures to reduce the impact of our operations on the environment by optimizing our route network and flight schedules as well as installing energy-saving environmentally friendly engines. In addition, we continue to improve the energy efficiency of our fleet by introducing aircraft with energy-saving technologies, such as A320neo and by retiring old aircraft. However, these measures have resulted in significant costs and expenditures. We expect to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict our ability to modify or expand facilities or continue operations.

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

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

## **Risks Relating to the PRC**

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

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

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

A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible in the current account, which includes payment of dividends, trade and service-related foreign currency transactions, but not in the capital account, which includes foreign direct investment, unless approval from or registration or filing with the relevant authorities, is obtained. As a foreign invested enterprise approved by the PRC Ministry of Commerce (the MOFCOM), we can purchase foreign currencies without the approval of State Administration of Foreign Exchange (the SAFE) for settlement of current account transactions, including for the

purpose of dividend payment, by providing commercial documents evidencing these transactions. We can also retain foreign currencies in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or pay dividends. The relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions in the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to raise foreign capital through debt or equity financing, including through loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign currencies to pay dividends, if any, or satisfy our foreign currency liabilities.



Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the PRC government policies, domestic and international economic and political conditions and changes in the supply and demand of the currency. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in appreciation of the Renminbi against the U.S. dollar by approximately 7.0% in 2008. While there was no material appreciation of Renminbi against the U.S. dollar in 2009, the Renminbi appreciated by approximately 3.0% against the U.S. dollar in 2010 and by approximately 5.1% in 2011. In April 2012, the PBOC widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 1.0% from the PBOC central parity rate, effective April 16, 2012. In March 2014, the PBOC further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 2% against the U.S. dollar from the daily central parity rate, effective March 17, 2014. On August 11, 2015, the PBOC executed a 2% devaluation in the Renminbi. Within the following two days, the Renminbi depreciated 3.5% against the U.S. dollar. The Renminbi depreciated 6.7% against the U.S. dollar from January 4, 2016 to December 30, 2016. The Renminbi appreciated 6.3% against the U.S. dollar for the year ended December 31, 2017. The Renminbi depreciated 2.0% against the U.S. dollar for the year ended December 31, 2018. However, it remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi. It is possible that the PRC government could adopt a more flexible foreign exchange policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on our financial condition and results of operations.

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

Increase in inflation is due to many factors beyond our control, such as rising production and labor costs, high debts, changes in the PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. The national consumer price index, which is an indicator of the inflation, was 2.0%, 1.6% and 2.1% in 2016, 2017 and 2018, respectively. The national consumer price index was 1.7%, 1.5% and 2.3% in January, February and March 2019, respectively. We cannot assure you that inflation rates will not increase in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures in the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

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

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant PRC Enterprise Income Tax Law. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008 and amended on February 24, 2017 and December 29, 2018. 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. To the extent that there are any increases in the applicable effective tax rate, withdrawals of, or changes in, our preferential tax treatment or tax exemptions, our tax liability may increase correspondingly.



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

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

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

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

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within China, our auditor relied on its China affiliate to perform audits on our consolidated financial statements, and the PCAOB is currently unable to conduct inspections of the work done by our auditor as it relates to our operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB. This lack of PCAOB inspection of audit work performed in China prevents the PCAOB from regularly evaluating the audit work performed by any auditor in China including our auditor. As a result, investors may be deprived of the full benefits of PCAOB inspections. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflected a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

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

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

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

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

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

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

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

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office and mailing address is 5/F, Block A2, Northern District, CEA Building, 36 Hongxiang 3rd Road, Minhang District, Shanghai, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat's office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company, China Eastern Airlines Corporation Limited was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. We are commercially known in the industry as China Eastern Airlines. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China's overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China's airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor's assets and

liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor's equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See Item 7. Major Shareholders and Related Party Transactions for more details.

The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of December 31, 2018:

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 (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 the Shares. In addition, dividends on the A Shares are payable in Renminbi.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On July 27, 2015, we entered into a conditional subscription agreement ( Subscription Agreement ) with Delta Air Lines, Inc. ( Delta Air Lines ), pursuant to which Delta Air Lines agreed to subscribe for 465,910,000 shares of the newly issued ordinary H shares of the Company in an amount of HK\$3,488,895,000, representing approximately 3.5% of the total share capital of the Company. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares to Delta Airlines, with a par value of RMB1.00 each at an issue price of HK\$7.49 per share.



On August 14, 2015, the Board of Directors approved the Resolution on the Termination of the Proposed Establishment of Jetstar Hong Kong and its Winding Up . The Board of Directors considers that the termination of the proposed establishment of Jetstar Hong Kong will have no material adverse impact on the financial conditions and production and operation of the Company.

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

On September 1, 2015, Delta Air Lines and we entered into a marketing agreement and a letter of confirmation on the Subscription Agreement. Pursuant to the marketing agreement, both parties will have greater cooperation in terms of code-share, revenue management, schedule coordination, sales cooperation, airport facilities sharing, frequent-flyer program, lounge and system investment as well as staff exchange. Pursuant to the letter of confirmation on the Subscription Agreement, as of September 1, 2015, all conditions precedent to the Subscription Agreement had been fulfilled except for those conditions that will be fulfilled on the completion date of share subscription. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares with a par value of RMB1.00 each at an issue price of HK\$7.49 per share.

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

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

On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet.

On November 16, 2017, EAO issued corporate SGD-denominated guaranteed bonds in an amount of SGD500,000,000 at 2.8% due 2020, which was listed on the Hong Kong Stock Exchange on November 17, 2017. The Company guaranteed the bond issue. See Note 39 to the consolidated financial statements for more information.

On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines.

On March 9, 2018, the Company issued JPY-denominated credit enhanced bonds (Series 1 JPY10,000,000,000 0.33% Bonds due 2021, Series 2 JPY20,000,000,000 0.64% Bonds due 2021 and Series 3 JPY20,000,000,000 0.64% Bonds due 2021), which was listed on the professional oriented TOKYO PRO-BOND Market of the Tokyo Stock Exchange on March 19, 2018. See Note 39 to the consolidated financial statements for the issuance of JPY bonds.

On July 10, 2018, the resolution in relation to our proposed non-public issuance of no more than 1,616,438,355 A shares and no more than 517,677,777 shares were approved by the Board of Directors. On August 30, 2018, the relevant resolution has been approved at our 2018 third extraordinary general meeting, 2018 first A shareholders class meeting and 2018 first H shareholders class meeting. We proposed to issue non-public A shares to Juneyao Airlines Co., Ltd. (Juneyao Airlines), Shanghai Juneyao (Group) Co., Ltd. and/or its designated controlled subsidiaries and structural reform fund. Meanwhile, we proposed to issue non-public H shares to Shanghai Juneyao Airlines Hong Kong Limited, a wholly-owned subsidiary of Juneyao Airlines. The proposed non-public issuance of A shares and H shares has been approved by the State-owned Assets Supervision and Administration Commission (the SASAC) and CAAC but is subject to the approval of CSRC.

The material development of our indebtedness is set out in Note 39 to the consolidated financial statements. The capital expenditure is set out in Item 5 in this Annual Report.

The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. We maintain our own website at <http://www.ceair.com>.

## **B. Business Overview**

We were one of the three largest air carriers in China in terms of several indicators including number of passengers carried, ATK and ASK in 2018 and is an important domestic airline based in and serving Shanghai, which is considered to be the international financial and shipping center of China. The primary focus of our business is the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

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 core hub and Xi'an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. We have steadily fostered the construction of a flight system for these core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing our transfer and connection capability in these hub markets. With the commencement of operation of Beijing Daxing International Airport in 2019, we expect that Beijing Daxing International Airport will also be one of our important hubs.

Our domestic routes contributed approximately 65.8% of our total passenger revenues in 2018. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen. Our flight routes include all provincial capital cities in China and specifically designated cities. In 2018, we opened new routes including routes to Stockholm, London Gatwick and Dubai from Shanghai and to St. Petersburg and Madrid from Xi'an. As of December 31, 2018, we served a route network that covers 1,150 domestic and foreign destinations in 175 countries through SkyTeam, an international airlines alliance.

Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased by 10.0% from approximately 183,182 million in 2017 to approximately 201,486 million in 2018. We transferred 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment in February 2017. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) decreased by 2.8% from approximately 2,663 million in 2017 to approximately 2,588 million in 2018 under the basis that our operating data in 2017 included our whole cargo freight data in January 2017 (under non-comparable basis). Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTK) increased by 5.3% from approximately 2,458 million in 2017 to approximately 2,588 million in 2018 under the basis that our operating data in 2017 did not include our whole cargo freight data in January 2017 (under comparable basis). As a result, our traffic volume (as measured in RTKs) increased by 8.0% from approximately 18,856 million in 2017 to approximately 20,358 million in 2018 under the non-comparable basis and increased by 9.2% from approximately 18,651 million in 2017 to approximately 20,358 million in 2018 under the comparable basis.

## Awards

We have received many awards, recognitions and accolades through the years. Fortune Magazine recognized us as one of the "Most Innovative PRC Companies" in 2011, and our "China Eastern Airlines" brand was awarded "China's Famous Trademark" by the State Administration for Industry and Commerce in 2011. In addition, in 2012 we received various recognitions and awards, including "Golden Tripod Prize", which was the highest award awarded at the 8th Annual Meeting of China's Securities Market, "Golden Bauhinia Award for The Listed Company with Best Brand Value 2012" by China Securities, "2012 Best Mid-Cap Company and Best Managed Company in China" by Asiamoney Magazine, "Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication and public relations firm, "2012 TOP 25 CSR (Corporate Social Responsibility) Ranking" by Fortune China Magazine, "2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20" by Southern Weekly, "The Best Board of Directors of State-owned Listed Holding Companies of China Top 20" by various major financial media, including Moneyweek, "Healthy China Best Employee Health & Benefit Unit" by Health Times, a major newspaper in China focusing on health and lifestyle, and Tsinghua University, "Internal Audit Leading Enterprises in terms of Risk Management and Internal Audit" by China Institute of Internal Audit, "Best 100 Employers" by zhaopin.com, a major online recruiting website in China, and "The World's Most Improved Airline" by SKYTRAX, a United Kingdom-based aviation research organization. In 2013, we received the National 1 May Award Certificate and were honored as one of the "2013 Top Ten Companies with the Best Corporate Social Responsibility" by Fortune China Magazine, "Best Mid-cap Company" by Hong Kong Asiamoney Magazine for the second consecutive year, "Top 50 Most Valuable Chinese Brands in 2013" by WPP, a global brand communication and public relations firm, the "Golden Bauhinia Award" of the "Best Listed Company" and "Listed

Company with the Best Investor's Relations Management by Ta Kung Pao and one of the Best 100 Employers by zhaopin.com. In 2014, our charity campaign Love at China Eastern Airlines was awarded the Gold Award at the First Chinese Young Volunteers Services Contest. The Love at China Eastern Airlines campaign has organized activities such as visiting welfare and nursing homes, subsidizing Hope Schools and schools for urban and rural migrant workers' children and teaching school children with hearing and speaking impairment, running blood donation programs, and other activities for environmental protection. The campaign launched 5,179 projects with 274,979 staff and members taking participation, serving a total of 233,353 people in need. Through interaction with the community, we have established a charity brand image of delivering love and serving the community. In 2015, Love at China Eastern Airlines launched 530 projects all year round, with 26,119 staff participating, serving a total of 40,166 people.

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

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

In 2016, we successively won the 9th TTG China Tourism Awards Best China Airlines, and were awarded 2016 Asian Tourism Red Coral Award Most Popular Airline Brand, Asia Pacific 2016 Excellence Aviation Award and International Carbon Gold Award Social Citizenship Award by the 2016 Asian Tourism Industry Annual Conference, the CAPA Communication Center and the World Environmental Protection (Economy and Environment) Conference respectively.

In 2017, we were awarded the International Carbon-Value Award Social Citizen Award by the World Economic and Environmental Conference and were rated as a Targeted Poverty Alleviation Demonstration Enterprise by the World Charity Forum. We were granted China Securities Golden Bauhinia Award for six consecutive years, recognized as one of the Top 30 Most Valuable Chinese Brand by Wire & Plastic Products Group (WPP), the world's largest brand communication group. We were also awarded as one of the World's 500 Most Valuable Brands by the famous brand appraisal organization Brand Finance, Gold Ranking accredited by IATA, and awards such as Feike Travel Awards, Best Employer Award in Aviation Industry, The Most Admired Company in China, Top 10 Influencing Airlines, Top 50 Chinese Brand with Overseas Social Influence and The Best Performing Airline by various authoritative institutions.

In 2018, we were awarded the China Securities Golden Bauhinia Award for the seventh consecutive year by Hong Kong Takungpao and Wenhui media group, Beijing Listed Company Association, the Hong Kong Chinese Enterprises Association, the Hong Kong Chinese Financial Association, the Hong Kong Chinese Securities Association, other industry organizations and professional institutions, awarded as one of the World's 500 Most Valuable Brands by Brand Finance, an international brand appraisal organization, for the third consecutive year and awarded as the Best China Airline in the TTG China Travel Awards organized by Travel Trade Guide China (TTG China) for the fourth consecutive year. In addition, we were recognized as one of the Top 50 Most Valuable Chinese Brands by Wire & Plastic Products Group (WPP), the world's largest brand communication group in 2018. We were also recognized as The Best Airline by Travelport, and as The Most Favored Domestic Business First-class by Chinese high net worth individuals conducted by the Hurun Research Institute in 2018.

### Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the years ended December 31, 2016, 2017 and 2018:

|                         | <b>Year Ended December 31,</b> |             |             |
|-------------------------|--------------------------------|-------------|-------------|
|                         | <b>2016</b>                    | <b>2017</b> | <b>2018</b> |
|                         | <i>(in RMB millions)</i>       |             |             |
| <b>Traffic revenues</b> |                                |             |             |

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|                               |               |               |                |
|-------------------------------|---------------|---------------|----------------|
| Passenger                     | 83,577        | 91,564        | 104,309        |
| Cargo and mail                | 5,977         | 3,623         | 3,627          |
| <b>Total traffic revenues</b> | <b>89,554</b> | <b>95,187</b> | <b>107,936</b> |

**Passenger Operations**

The following table sets forth our certain passenger operating statistics by route for each of the years ended December 31, 2016, 2017 and 2018:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2017</b> | <b>2018</b> |
| Passenger Traffic (in RPKs) (millions)  | 167,529                        | 183,182     | 201,486     |
| Domestic                                | 106,361                        | 117,033     | 128,906     |
| Regional (Hong Kong, Macau and Taiwan)  | 4,347                          | 4,758       | 5,289       |
| International                           | 56,821                         | 61,391      | 67,290      |
| Passenger Capacity (in ASKs) (millions) | 206,249                        | 225,996     | 244,841     |
| Domestic                                | 129,460                        | 141,067     | 154,059     |
| Regional (Hong Kong, Macau and Taiwan)  | 5,612                          | 5,948       | 6,374       |
| International                           | 71,177                         | 78,981      | 84,408      |
| Passenger Yield (RMB)                   | 0.52                           | 0.52        | 0.54        |
| Domestic                                | 0.53                           | 0.54        | 0.56        |
| Regional (Hong Kong, Macau and Taiwan)  | 0.71                           | 0.72        | 0.73        |
| International                           | 0.47                           | 0.47        | 0.49        |
| Passenger Load Factor (%)               | 81.23                          | 81.06       | 82.29       |
| Domestic                                | 82.16                          | 82.96       | 83.67       |
| Regional (Hong Kong, Macau and Taiwan)  | 77.45                          | 79.99       | 82.99       |
| International                           | 79.83                          | 77.73       | 79.72       |

In 2016, we continued to update and optimize our fleet structure, introducing new aircrafts continually and retiring outdated model aircrafts. As of the end of 2016, our average flight age was 5.4 years. We mainly introduce long haul B777 series aircrafts in trans-Pacific routes; mid-to-long-haul A330 series aircrafts in China-Europe routes, China-Australia and domestic business routes; A320 series and B737 series aircrafts in domestic and surrounding countries and regions routes, which we believe enhances the matching level between fleet models and routes, transportation capacities and relevant markets. In 2016, we continued to deepen and expand our cooperation with external partners. Relying on the SkyTeam Alliance platform, we continued to enhance our cooperation with member airlines in the SkyTeam Alliance. In collaboration with Delta Air Lines, based on pre-existing trans-Pacific routes and destinations in the PRC and the USA, we further extended our network of cooperative routes to Canada, Mexico, Southeast Asian and South American regions, achieving a total of 252 codeshare routes. In collaboration with Air France-KLM Group ( Air France-KLM ), based on our jointly operated routes and code-share coverage, we increased our joint marketing efforts to corporate customers in the French market.

In 2016, we proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of our transportation network. With Shanghai as the core hub, we added six international routes for long-haul flights to our network, connecting Shanghai and Prague, Amsterdam, Madrid, St. Petersburg, Chicago and Brisbane, respectively. We provided more frequent flight services on routes connecting Shanghai and New York City, Los Angeles, Sydney and Melbourne. We added routes connecting Kunming and Sydney, Qingdao and San Francisco, Nanjing and Vancouver and Hangzhou and Sydney. Last, we stabilized the allocation of our flight capacities for Japan, Korea and Southeast Asia markets. As a result of these enhanced transit connection and expanded transit routes structures, in 2016, we experienced approximately 26.8%, 63.8% and 43.1% year-on-year growth in passenger flight capacity for Europe, North America and Australia markets, respectively; and our inter-airline transit volume and revenue grew by 24.2% and 21.4%, respectively. As of the end of 2016, by connecting to the route networks of other SkyTeam member airlines, our flights had access to 1,062 destinations in 177 countries.



In 2016, we put in available seat kilometers (ASK) of approximately 206,249.27 million passenger-kilometers, representing an increase of approximately 13.5% from 2015. Number of passengers carried in 2016 was approximately 101.74 million, representing an increase of approximately 8.5% from 2015. Passenger load factor in 2016 was approximately 81.2%, representing an increase of approximately 0.7% from 2015. Passenger revenue in 2016 amounted to approximately RMB83,577 million, representing an increase of approximately 6.4% from 2015.

In 2016, we further strengthened our Shanghai core hub and Xi'an and Kunming regional hubs. The aggregated number of transits connecting origin to destination of the three hubs reached 6,075, an increase of 13.8% as compared to 2015. In respect of the number of transits connecting origin to destination, Pudong reached 4,083, an increase of 17.9% as compared to 2015, Kunming reached 1,384, an increase of 9.1% as compared to 2015, and Xi'an reached 608, which was similar to 2015. The three hubs transported approximately 4.51 million passengers, an increase of 27.0% as compared to 2015. Among them, our Shanghai hub transported approximately 2.99 million passengers, an increase of 27.2% as compared to 2015, comprising 25.6% of transit flights; our Kunming hub transported approximately 1.18 million passengers, an increase of 18.7% as compared with 2015, comprising 16.1% of transit flights; and Xi'an hub transported approximately 340,000 passengers, an increase of 64.7% as compared to 2015, comprising of 6.9% transit flights.

In 2017, in view of a relatively complicated external environment and intensifying competition, we embrace challenges by seizing new development opportunities such as the One Belt One Road initiative, free trade port in Shanghai, the construction of the new airport in Beijing and the full access to electronic devices on aircraft.

According to the Approval of the feasibility study report of the construction of new airport in Beijing by the NDRC and the Notice regarding the matters of the construction of airline base project at the new airport in Beijing by CAAC, the new airport in Beijing is located along the north bank of Yongding River, and between Yu Fa Town and Li Xian Town, Daxing District, Beijing and Guangyang District, Lang Fang, Hebei. Being the major base airline of the new airport in Beijing, we will undertake base construction according to the target of bearing 40% of the traffic flow of the new airport in Beijing. In February 2017, we have gained the approval from the NDRC in regards of the base project at the new airport in Beijing. After the commencement of operation of the new airport in Beijing in 2019, we will grasp the developmental opportunities derived from the coordinated development of Beijing, Tianjin and Hebei, especially the construction of Xiongan New District by the State, to actively strive for routes and time slot resources. Leveraging on the SkyTeam Airline Alliance platform, we will construct international coverage of our route networks to provide convenient, highly efficient and quality outbound traveling services for travelers.

In 2017, we focused on the operation and development of the passenger transportation business. We continued to optimize e-commerce platform functions. For e-commerce, we expedited the construction of our in-flight internet connection platform. The scale of the aircraft fleet with Wi-Fi installed ranked at the top nationwide and we took the lead in allowing the use of portable electronic devices on flight in the PRC. As at the end of 2017, internet access has become available in all our 74 wide-body aircraft with the coverage of major business routes in Europe, the U.S., Australia and China. Internet Access In the Air enhanced customers in-flight experience. We also upgraded and improved our 11 overseas websites, and a total of 12 updates were made to our mobile application. Furthermore, we introduced new service products such as pre-flight ordering of in-flight meals via mobile application, with an aim to optimize service experiences of customers. We strengthened the shopping mall points operations by introducing diversified point redemption products such as oversized baggage redemption and continued to increase the revenue from the sales of non-aviation points, where the revenue from the sales of non-aviation points increased by 149% compared to 2016.

In 2017, we continued to optimized our fleet structure. We introduced a total of 73 aircraft of major models and a total of 18 aircraft retired. With the introduction of B737-8MAX series aircraft and the gradual retirement of B767 series aircraft, our fleet structure has been made younger. In 2017, we continued to deepen and expand our cooperation with external partners. We deepened the comprehensive partnership with Delta by further expanding the code-share coverage and jointly deepened marketing cooperation by expanding channels and markets. We also strengthened our business partnership with AFK by further expanding our code-share coverage with it. Capitalized on the cooperation platform of SkyTeam Airline Alliance, we have newly launched code-share cooperation with Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK). In addition, we attached importance to and continued to strengthen the cooperation with airlines which are not members of SkyTeam Airline Alliance. In collaborating with Qantas Airways Limited (IATA code: QF), we launched enhanced cooperation in joint

operation and sales, and points earning and redeeming of frequent flyer program. We commenced to launch code-sharing cooperation with Jet Airways (India) Ltd. (IATA code: 9W) and Air Mauritius Limited (IATA code: MK), and discussion on bilateral cooperation of frequent flyers with WestJet Airlines Ltd. (IATA code: WS).

In 2017, we strengthened the research on the route network planning of Beijing's new hub, and actively promoted the construction project of our base in the new airport in Beijing. We conducted seasonal improvements and adjustments on transportation capacity, and introduced Beijing-Hangzhou-Sydney, Kunming-Sydney and Wuhan-Sydney routes in accordance with the characteristics of European, American and Australian markets in recent years. In view of the changing demand for the Korean market, we reduced transportation capacity and changed to use smaller aircraft. We also introduced routes such as Shanghai-Jakarta, Shanghai-Cebu, Xi'an-Prague and Shenzhen-Krabi so as to be in line with the State's One Belt One Road initiative. As at the end of 2017, with the matching route networks with the SkyTeam Airline Alliance members, our route networks reached 177 countries and 1,074 destinations.

In 2017, we put in available seat kilometers (ASK) of approximately 225,996 million passenger-kilometers, representing an increase of approximately 9.6% from 2016. Number of passengers carried in 2017 was approximately 111 million, representing an increase of approximately 8.9% from 2016. Passenger load factor in 2017 was approximately 81.1%, representing a decrease of approximately 0.17 percentage point from 2016. Passenger revenue in 2017 amounted to approximately RMB91,564 million, representing an increase of approximately 9.6% from 2016.

In 2017, we further strengthened our Shanghai core hub and Xi'an and Kunming regional hubs. The aggregated number of transits connecting origin to destination of the three hubs reached 6,489, an increase of 6.8% as compared to 2016. In respect of the number of transits connecting origin to destination, Pudong reached 4,225, an increase of 3.5% as compared to 2016, Kunming reached 1,608, an increase of 16.2% as compared to 2016, and Xi'an reached 656, an increase of 7.9% as compared to 2016. The three hubs transported approximately 4.98 million passengers, an increase of approximately 10.5% as compared to 2016. Among them, our Shanghai hub transported approximately 3.02 million passengers, an increase of approximately 1.2% as compared to 2016, comprising 24.3% of transit flights; our Kunming hub transported approximately 1.45 million passengers, an increase of approximately 22.7% as compared with 2016, comprising 17.7% of transit flights; and Xi'an hub transported approximately 0.51 million passengers, an increase of approximately 50.3% as compared to 2016, comprising of 8.6% transit flights.

In 2018, our fleet size, number of flights and number of users with in-flight internet connection ranked the first in China. We actively sought to establish an in-flight internet joint venture with telecom operators to reinforce and enhance our first-mover advantage in the in-flight internet connection business. We continuously optimized the customers' experience on our official website and mobile application, added and optimized important functions such as pre-flight ordering of in-flight meals and publication of information regarding unusual flights. We have vigorously promoted the establishment of overseas e-commerce platform, launched 14 new overseas websites and introduced value-added products such as oversized baggage check-in, VIP lounges and online seat selection. We strengthened the operation of points mall, enriched point redemption products, and optimized the points payment function.

In 2018, we introduced a total of 67 aircraft of major models and a total of 14 aircraft retired. With the introduction of new aircraft, such as A350-900, B787-9 and A320NEO, and the retirement of B767 aircraft, our fleet age has been made younger. As of December 31, 2018, we operated a fleet of 692 aircraft, which included 680 passenger aircraft and 12 business aircraft held under trust. We continuously intensified our cooperation with strategic partners to enrich the contents for cooperation and enhance the quality of cooperation. Delta Air Lines and we continued to intensify bilateral cooperation in four aspects, namely, revenue from cooperation (including mutual sales revenue and revenue from SPA (special allocation agreements)), experience of travelers, communication between personnel and cooperation for expansion and development. We entered into a new cooperation agreement with Air France-KLM, pursuant to which, additional routes such as Kunming-Paris and Wuhan-Paris were operated jointly commencing from January 1, 2019. We worked with Delta Air Lines and Air France-KLM to carry out the plan for network optimization connection, as well as ground service and procedure standards for Beijing Daxing International Airport. By entering into a comprehensive and upgraded business agreement with Qantas Airways Limited, we intensified the business partnership of both parties based on the original joint partnership. We has signed a joint cooperation agreement with Japan Airlines Co., Ltd. (Japan Airlines), and both parties are performing the relevant anti-monopoly legal procedures of China and Japan.

In 2018, our market share (in terms of passenger throughput) in hubs such as Shanghai, Beijing and Kunming increased by 0.6, 0.4 and 0.8 percentage point, respectively, while our market share in Xi'an remained the same year-on-year. Through the optimization of transit connection, the effect of hub network has gradually appeared. In respect of the number of transits connecting origin to destination, Pudong reached 4,614, representing an increase of 9.2% as compared to 2017; Kunming reached 1,793, representing an increase of 11.5% as compared to 2017; Xi'an reached 739, representing an increase of 12.7% as compared to 2017; and Beijing reached 751, representing an increase of 1.0% as compared to 2017.

In 2018, we put in available seat kilometers (ASK) of approximately 244,841 million passenger-kilometers, representing an increase of approximately 8.3% from 2017. Number of passengers carried in 2018 was approximately 121 million, representing an increase of approximately 9.4% from 2017. Passenger load factor in 2018 was approximately 82.3%, representing an increase of approximately 1.2 percentage points from 2017. Passenger revenue in 2018 amounted to approximately RMB104,309 million, representing an increase of approximately 13.9% from 2017.

**Cargo and Mail Operations**

The following table sets forth certain of our cargo and mail operations statistics by route for each of the years ended December 31, 2016, 2017 and 2018:

|   | Year Ended<br>December 31,                       |  |  |  |       |
|---|--|--|--|--|-------|
|   | 2016<br>(Non-comparable<br>basis) <sup>(1)</sup> | 2016<br>(Comparable<br>basis) <sup>(2)</sup> | 2017<br>(Non-comparable<br>basis) <sup>(3)</sup> | 2017<br>(Comparable<br>basis) <sup>(4)</sup> | 2018  |
| <b>Cargo and Mail Traffic (in RFTKs)</b><br>(millions)  | 4,875  | 2,495  | 2,663  | 2,458  | 2,588 |
| Domestic  | 964  | 927  | 896  | 894  | 886   |
| Regional (Hong Kong, Macau and<br>Taiwan)               | 126  | 38   | 45   | 37   | 35    |
| International   | 3,786  | 1,530  | 1,723  | 1,527  | 1,667 |
| <b>Cargo and Mail Capacity (in AFTKs)</b><br>(millions) | 9,440  | 6,535  | 7,057  | 6,797  | 7,901 |
| Domestic  | 2,221  | 2,163  | 2,278  | 2,275  | 2,741 |
| Regional (Hong Kong, Macau and<br>Taiwan)               | 270  | 148  | 188  | 177  | 191   |
| International   | 6,949  | 4,224  | 4,592  | 4,345  | 4,969 |
| <b>Cargo and Mail Yield (RMB)</b>                       | 1.25   | 1.25   | 1.36   | 1.36   | 1.40  |
| Domestic  | 1.07   | 1.10   | 1.10   | 1.10   | 1.12  |
| Regional (Hong Kong, Macau and<br>Taiwan)               | 2.98   | 3.04   | 3.56   | 3.62   | 5.57  |
| International   | 1.24   | 1.30   | 1.44   | 1.46   | 1.47  |
| <b>Cargo and Mail Load Factor (%)</b>                   | 51.64  | 38.20  | 37.73  | 36.17  | 32.76 |
| Domestic  | 43.39  | 42.90  | 39.32  | 39.30  | 32.33 |
| Regional (Hong Kong, Macau and<br>Taiwan)               | 46.51  | 25.70  | 23.85  | 20.92  | 18.39 |
| International   | 54.48  | 36.20  | 37.52  | 35.15  | 33.55 |

**Notes:**

- (1) On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment, in relation to the transfer of 100% equity interests in Eastern Logistics held by us to Eastern Airlines Industry Investment. China Cargo Airlines, a non-wholly owned subsidiary of Eastern Logistics, operated nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. Under non-comparable basis, our operating data in 2016 included our whole cargo freight data during the period from February to December 2016.
- (2) Under comparable basis, our operating data in 2016 did not include our whole cargo freight data during the period from February to December 2016.
- (3) Under non-comparable basis, the operating data in 2017 included our whole cargo freight data in January 2017.
- (4) Under comparable basis, the operating data in 2017 did not include our whole cargo freight data in January 2017.

On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment, in relation to the transfer of 100% equity interests in Eastern Logistics held by us to Eastern Airlines Industry Investment. China Cargo Airlines, a non-wholly subsidiary of Eastern Logistics, operated a total of nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. After completion of the disposal, we will focus on air passenger transportation business and continue to improve our operating and management ability. Also, on November 29, 2016, we and Eastern Logistics entered into the freight logistics daily connected transactions framework agreement. See Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions - Related Business Transactions - Eastern Logistics, an indirectly owned subsidiary of CEA Holding - Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics .

On January 1, 2017, to avoid the competition between the bellyhold space business operated by us and the all-cargo aircraft freight business operated by China Cargo Airlines, we entered into the bellyhold space management agreement with China Cargo Airlines ( Bellyhold Space Management Agreement ) to entrust China Cargo Airlines for the operation of the bellyhold space business for a term of three years, which commenced on January 1, 2017. On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines. The Bellyhold Space Management Agreement has been superseded by the contractual operation agreement dated March 1, 2018 entered into between the Company and China Cargo Airlines since March 31, 2018.

## Our Operations by Geographical Area

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

Traffic revenue from services within the PRC (excluding Hong Kong Special Administrative Region ( Hong Kong ), Macau Special Administrative Region ( Macau ) and Taiwan, (collectively known as Regional ) ) is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.

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

The following table sets forth our revenues by geographical area for each of the three years ended December 31, 2018:

|  | <b>2016</b>              | <b>2017</b>    | <b>2018</b>    |
|--|--------------------------|----------------|----------------|
|  | <i>(in RMB millions)</i> |                |                |
| Domestic                               | 63,730                   | 67,923         | 76,517         |
| Regional (Hong Kong, Macau and Taiwan) | 3,516                    | 3,624          | 4,017          |
| International                          | 31,658                   | 30,928         | 34,744         |
| <b>Total</b>                           | <b>98,904</b>            | <b>102,475</b> | <b>115,278</b> |

## Regulation

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

the administration of airports and air traffic control systems;

aircraft registration and aircraft airworthiness certification;

operational safety standards; and

the liabilities of carriers.

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



whether to apply for any route;

the allocation of aircraft among routes;

the airfare pricing for the international and regional passenger routes;

the airfare pricing within the limit provided by the CAAC for the domestic passenger routes;

the acquisition of aircraft and spare parts;

the training and supervision of personnel; and

many other areas of day-to-day operations.

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

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. We believe those policies will be beneficial to the development of and prospects for the Chinese airline industry as a whole. Nevertheless, those regulatory policies could limit our flexibility to respond to changes in market conditions, competition or our cost structure. Moreover, while we generally benefit 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 we provide 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. Our business operations 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 us, 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. Since then, the two sides signed memorandums to further expand the Air Transportation Arrangement several times.

On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by the governments of mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to

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

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

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

availability of appropriate aircraft and flight personnel;

safety record;

on-time performance; and

hub location.

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

### ***Airfare Pricing Policy***

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

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

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

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

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

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

At the end of 2017, the CAAC and the NDRC jointly promulgated the *Notice on Further Improving the Problems about Passenger Transport Price Policy in Civil Aviation Domestic Air Transport*, given greater freedom to set fares on more domestic routes.

On April 13, 2018, the CAAC issued the *Notice on the Issuance of Domestic Route Directory with Market-adjusted Prices* showing a total of 1,030 domestic routes implementing market adjusted ticket prices.

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 coordinating international airfares. Discounts are permitted on regional and international routes. For the airline industry in China as a whole, the airfare per kilometer is substantially higher for regional and international routes than that for domestic routes.

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

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

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

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

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

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

## ***Safety***

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

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

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

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

## ***Security***

The CAAC establishes and oversees the implementation of security standards and regulations based on the PRC laws and standards established by international civil aviation 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 we comply with all applicable security regulations.

## ***Environmental Regulation***



We are subject to a number of environmental laws and regulations issued by regulatory authorities in China including the Environment Protection Law of the PRC, the Prevention and Control of Noise Pollution Law of the PRC, the Environmental Protection Tax Law of the PRC, Implementing Regulations of Environmental Protection Tax Law of the PRC, Notice on Developing Carbon Reporting and Verification and Emissions Monitoring Plan of 2018, the Notice on Printing and Distributing the List of Quota Management Units of Shanghai Carbon Emission Trading (2018 Edition). We believe that we comply with all applicable noise and environmental regulations in material aspects.

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

Prior to September 2003, all civilian airports in China were operated directly by the CAAC or by provincial or municipal governments. In September 2003, as part of the restructuring of the aviation industry in China, the CAAC transferred 93 civilian airports to provincial or municipal governments. The CAAC retained the authority to determine the take-off and landing charges, as well as charges on airlines for the use of airports and airport services. Prior to 2004, Chinese airlines were generally required to collect from their passengers on behalf of the CAAC a levy for contribution to the civil aviation infrastructure fund, which was used for improving China's civilian airport facilities. Our revenue for the previous years is shown net of this levy. In 2003, the levy was 5% of domestic airfares and 2% of international airfares. The levy was waived by the CAAC from May 1, 2003 to December 31, 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance of the PRC (MOF), have been reflected in airfares 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. On January 23, 2017, CAAC promulgated the Notice of Distributing the Adjustment Plan for Charging Standards for Civil Airport, adjusting the general aviation fee policy and the preferential policy for passenger service fees, including but not limited to the categories, meanings, management methods, benchmark prices and floating ranges of several airport charges and take-off and landing fees.

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

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

The CAAC's present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot hold a majority of our total outstanding shares individually or together. For PRC air transportation companies, pursuant to the new Catalog of Industries for Guiding Foreign Investment, that was jointly promulgated by the NDRC and MOC on June 28, 2018 and came into effect on July 28, 2018, Chinese investors should be the controlling shareholders of a PRC public air transportation company and the total shares held by foreign investment enterprises and its associated enterprises are not permitted to exceed 25% of the total shares of a PRC public air transportation company.

### ***Domestic Investment***

According to the Regulations on Domestic Investment in Civil Aviation Industry issued by the Ministry of Transport of PRC and effected on January 19, 2018, public air transport companies that require special management for domestic investment can keep a relative state-owned holding in its equity structure. The state-owned shares ratio requirement of major civil transport airports is loosened. Moreover, investment restrictions among various entities in the civil aviation industry are further liberalized.

### **Competition**

*Domestic*

We compete against our domestic competitors primarily based on 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 we are 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 period. However, if the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify.

There are currently more than 50 Chinese airlines in mainland China, and we compete 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.

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, we also compete against virtually all of the major domestic airlines on these routes. In addition, we are facing increasing competition from certain low-cost carriers, such as Spring Airlines, in the domestic market. Spring Airlines competes with us, as it operates daily domestic routes to certain destinations such as Harbin, Shenyang, Guangzhou, Xiamen, Sanya, Kunming and Chongqing, which are covered in our domestic routes. The Twelfth Five-Year Plan for civil aviation industry in China encourages low-cost airlines to enter into major logistics market gradually. In February 2014, CAAC issued Guidance on Facilitating Low-cost Aviation Development which aims at supporting the development of domestic low-cost airlines. This will further intensify the competition in domestic aviation market. However, we believe we are well-positioned to compete against domestic low-cost carriers due to our expansive route network, competitive pricing, greater availability of flight services to these destinations and strong brand name.

### ***Domestic Rail***

The PRC government is aggressively implementing the expansion of its domestic high-speed rail network, which has provided train services at speeds of up to 350 km per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes between 500 km to 800 km. The high-speed railway routes in Yunnan Province gradually commenced operations in 2018, and has affected our routes in Yunnan Province.

With the establishment of a PRC national high-speed railway network, we will inevitably face increasing competition and pricing pressures from this railway service. Therefore, we have been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating air-to-railway transfers, adjusting the flight structure, and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability, higher demand and lessened competition. In addition, in 2013, we developed ground connection services such as Air-Rail Service and Air-Bus Service and cooperated with Disney, brand hotel groups, and renowned international travel enterprises to develop travel products. In 2017, our Air-Rail Service and Air-Bus Service developed steadily with increased routes in Yangtze River Delta, Xi'an, Lanzhou and other cities and regions. We expect to continue exploring cooperation opportunities with domestic railway authorities, while maintaining and strengthening our other competitive advantages, which include providing high quality services, increasing our pre-sale product promotions and developing our transfer services. In 2018, we continued to promote our Air-Rail Service and Air-Bus Service to mitigate the effects of the new high-speed train routes on our corresponding routes.

### ***Regional***

Our Hong Kong routes are highly competitive. We currently operate approximately 20 flight routes between various cities in mainland China and Hong Kong. The primary competitors on our Hong Kong routes are Cathay Pacific

Airways ( Cathay ), Hong Kong Dragon Airlines Limited ( Dragonair ) and HongKong Airlines. Cathay, Dragonair and HongKong Airlines compete with us on several of these routes, particularly the Shanghai-Hong Kong route. We also face competition from Spring Airlines on our Shanghai-Hong Kong and Shanghai-Macau routes. In addition, we face competition from HK Express on our Kunming-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.

The policy restraint on direct flights between Taiwan and mainland China has been further loosened in the past few years but there has been no further negotiation on the expansion of such arrangement between Taiwan and mainland China since mid-2016. We currently operate flights to Taipei from Shanghai, Xi'an, Kunming, Changzhou, Hefei, Huai'an, Yinchuan, Nanchang, Lanzhou, Lijiang, Ningbo, Nanjing, Qingdao, Huangshan, Taiyuan, Wuhuan, Wuxi and Xining. We currently compete with China Airlines on our Shanghai-Taipei routes. However, given the arrangement is subject to the political relationship between Taiwan and mainland China, any deterioration in such political relationship may cause the discontinuity or disruption in the flight arrangement. As one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that we will maintain or will continue to be allocated sufficient Taiwan-mainland China routes, or our results will not be adversely impacted.

We compete with Air Macau on the Shanghai Pudong-Macau route. Air Macau's routes also provide an alternative to our Hong Kong routes for passengers traveling 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.

To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in Asia Miles, a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system. In addition, in June 2011, we joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As a member of SkyTeam alliance, our Elite members can enjoy approximately 516 lounges worldwide. In 2013, we implemented code-sharing programs covering 242 routes with 11 SkyTeam member airlines. In the meantime, we also started code-sharing cooperation with seven non-SkyTeam member airlines, covering more than 150 routes, including Japan Airlines and Qantas Airways Limited. In 2014, we proactively promoted international cooperation among members and non-members airlines of SkyTeam Alliance at various levels and expanded its route network to increase its brand recognition. We implemented transit service cooperation with China Airlines, Delta Airlines and Air France between different terminals at Shanghai Pudong International Airport. We facilitate joint sales by optimizing transit connection with Delta Airlines and enhanced co-operations with Air France by increasing the number of code-share flights. We also comprehensively improved cooperation on the China-Australia route by establishing joint operation with Qantas.

In 2015, we actively responded to the industry competition, strove for additions of air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets. Based on the SkyTeam Alliance platform, we enhanced our strategic cooperation with Delta Air Lines and cooperated with Air France and Qantas to develop a highly efficient and convenient flight network, which covered the whole country and connected to the whole world.

In 2016, we proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of our transportation network. With Shanghai as the core hub, we added six international routes for long-haul flights to our network, connecting Shanghai and Prague, Amsterdam, Madrid, St. Petersburg, Chicago and Brisbane, respectively. We provided more frequent flight services on routes

connecting Shanghai and New York City, Los Angeles, Sydney and Melbourne. We added routes connecting Kunming and Sydney, Qingdao and San Francisco, Nanjing and Vancouver and Hangzhou and Sydney. Last, we stabilized the allocation of our flight capacities for Japan, Korea and Southeast Asia markets. As a result of these enhanced transit connection and expanded transit routes structures. Meanwhile, we also continued to strengthen our cooperation with airlines which are not members of the SkyTeam Alliance. We and Qantas Airways opened up our respective VIP lounges in the PRC and Australia to each other. Through cooperating with British Airways, Royal Brunei Airlines and China Express Airlines in code sharing, we optimized our transit connection at London Heathrow Airport and enhanced the level of coverage of our route network in Southeast Asia.

In 2017, we actively responded to the competition in international market. We have strengthened our cooperation with Air-France KLM and Delta to further extend our international route and improve our competitiveness and reputation in the international market. Relying on the cooperation platform of SkyTeam Airline Alliance, we have newly launched code-share cooperation with Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK). In addition, the agreement of Fully Opening of the Aviation Market between China and Australia has intensified the competition in the Australian market, yet, it has caused us to strengthen our cooperation within the SkyTeam Airline Alliance, especially joining hands with Qantas Airlines, a cooperative partner, to expand the route network and share the infrastructure and resources of the main bases of both parties. We deepened our cooperation with Qantas Airlines in terms of code sharing, joint operation and sales. We commenced to launch code-sharing cooperation with Jet Airways (India) Ltd. (IATA code: 9W) and Air Mauritius Limited (IATA code: MK). In 2017, we also proactively adjust our capacities in international routes according to the market situation.

In 2018, in addition to our intensified cooperation with strategic partners to enrich the contents for cooperation and enhance the quality of cooperation, we also expanded our cooperation on code sharing with other domestic and international air carriers. For example, we launched code sharing on new domestic and international routes with Xiamen Air, Vietnam Airlines, Kenya Airways and Alitalia, covering routes from China to Asia, Europe and Africa.

### **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 and international airlines. We have four main maintenance bases in Shanghai, Kunming and Xi'an and several maintenance bases in our provincial hubs including Taiyuan, Qingdao and etc. Our primary aircraft maintenance base is at Pudong International Airport. We employed approximately 12,262 workers as maintenance personnel as of December 31, 2018. We prepared our own training plan for our employees to meet the requirements of certain regulations and the needs for future development. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have acquired additional maintenance equipment, tools and fixtures and other assets over the past few years, such as airborne testing and aircraft data recovery and analysis equipment. In 2018, we also increased our capacities in our maintenance bases in Kunming and Xi'an for the maintenance of narrow-body aircraft. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

We entered into a joint venture with Honeywell International Inc. (Honeywell), formerly Allied Signal Inc., in Shanghai for 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. We 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. We and Rockwell Collins



International Inc. hold 35% and 65%, respectively, of the equity interests in the joint venture. Moreover, in November 2002, we, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which we hold 60% of the equity interests, to provide supplemental avionics and other maintenance services to us. STA, which was established in 2004 by us and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated March 10, 2003, also provides us with aircraft maintenance, repair and overhaul services. In 2018, we entered into 11 agreements with Honeywell, pursuant to which we expected we could save certain repairing costs.

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

Since December 2014, we have adopted an innovative asset management model and established Eastern Airlines Technology Co. Ltd. ( Eastern Technology ), a wholly-owned subsidiary specializing in aircraft maintenance, to explore the transformation of supporting assets to operational assets. In 2015, Eastern Technology engaged in aircraft maintenance, raised its standards for aircraft maintenance and construction management to facilitate our centralized control over aircraft maintenance, and focused on high-end premium operations, such as providing maintenance services for aircraft for Chinese routes operated by international airlines and sharing of aviation equipment. In 2016, other airlines such as Singapore Airlines, AirAsia and Royal Brunei Airlines became customers of Eastern Technology, whose area of operation expanded to locations including Xi'an, Jinan, Wuhan and Wuxi. In 2017, other airlines such as Macau Airlines, Delta, Asiana Airlines, Hong Kong Airlines and Malaysia Airlines became customers of Eastern Technology. In 2018, we continued our efforts in expanding our maintenance services. We became the maintenance service provider for a total of 11 airlines in 17 stations in 2018.

### *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 flight safety. We have had a flight safety committee since the commencement of our business, comprised of members of our senior management, to formulate policies and implement routine safety checks at our Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review our overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. We have also implemented an employee incentive program, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and our safety procedures. We periodically evaluate the skills, experience and safety records of our pilots in order to maintain strict control over the quality of our pilot crews. In 2011, we were awarded the Flight Safety Five-star Award by CAAC for our commitment to aviation and operations safety.

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

them to each of our flight crew, the maintenance department and the flight safety management department. The CAAC also requires us to prepare and submit semi-annual and annual flight safety reports.

Regarding the strengthening of the SMS, we have (i) organized training for the administrators of safety management of all operating units, deepened the understanding for the construction of SMS, laying the groundwork for SMS; (ii) followed our plans and orderly commenced the construction of the analytical network. We had a number of cooperation meetings, discussing the master framework, which carries the system. We also introduced the concept of safety indicators for operational progress, rendering safety management more comprehensible; and (iii) continuously improved the risks database of the relevant routes and airports, strengthening the application of the different databases on the actual process of operation.

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

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

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

In 2016, we further enhanced our safety management system by strengthening the enforcement of safety responsibilities, strengthening our safety supervision and inspection, strengthening our risk control over special routes and international routes for long-haul flights, enhancing our operational risk alert abilities, boosting the quality of training for our pilots, improving our system for developing talents with core skills, enhancing our ability in handling security-related contingencies, and strictly implementing safety requirements for our flights.

In 2017, through the formulation of safety management responsibility list, we strengthened procedure management and enforced safety management responsibilities. We also carried out safety management system effectiveness evaluation to enhance our abilities in identifying and managing material operational risks. In addition, we improved our emergency handbooks and emergency flows to enhance its ability in handling contingencies, as well as conducted comprehensive safety inspections and adopted specific prevention measures targeting material risk-prone areas to strengthen risk management. We made use of information technology to disseminate safety information and risk alerts quickly and strengthened the application of technology in safety management. We developed air defense information system to promote the integration of air security and ensured the safety of air defense. In 2017, we had 2,073,000 safe flying hours and 879,700 take-off and landing flights, which is an increase of 8.0% and 7.0%, respectively, over the same period of year 2016.

In 2018, we continued to emphasize our commitment to safety. We recognized major operational risks by conducting scientific researches, formulated specific management and control measures, focused on enhancing the prevention of safety risks, continuously optimized the management mechanism of safety performance, implemented safety responsibilities at all levels, and effectively increased the capability of safety management. In 2018, our fleet had 2,206,000 safe flying hours in total, which have increased by 6.6% over the same period in 2017. In 2018, our fleet had 930,100 take-off and landing flights, which have increased by 6.0% over the same period in 2017.

### **Cyber-security**

With respect to our internal policies on cyber-security and internet safety, we have established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. We also plan to implement measures relating to the office environment information safety management and information system

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

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

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

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

In 2016, we conducted information system emergency response training and commissioned the construction of our Xi'an disaster backup facility. In addition, we implemented security code review and security protection around the boundaries of our internet and data center, optimized the multi-dimensional security protection system and elevated the overall security protection level on our information system.

In 2017, we based on the "Three Centers in Two Places" plan to promote our work on the construction of the Xi'an data and disaster backup facility and the construction of a globalized basic assurance and service system. We optimized the multi-dimensional security protection system on the internet and the data center to prevent the attack of the WANNACRY ransomware effectively. We conducted information system emergency response training and relied on security code quality analysis to implement security code review and security protection. We also commenced security review for information system and enhanced emergency response of internet security, optimized the multi-dimensional security protection system on the internet and the data center and safeguarded the security of key information infrastructure, elevating the overall security protection standard on our information system. In 2017, our information security management system passed the ISO27001 review for certification renewal and the ISO20000 review.

In 2018, we established and announced two internal regulations relating to cyber-security, namely China Eastern Airlines Accounts Management Regulation and China Eastern Airlines Information System and Personal Data Protection Management Requirements. In addition, in strict compliance with the relevant provisions of the General Data Protection Regulation by the European Union, we have appointed a data protection officer to enhance the protection of customer information and prevent network security risks. In 2018, our information security management system passed the ISO27001 review for certification renewal.

We did not purchase any insurance for internet security.

## **Fuel Supplies**

Jet fuel is one of the major expenses of airlines. Fuel costs represented approximately 29.9% of our total operating expenses in 2018. 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. Significant fluctuations of international oil prices will significantly impact jet fuel prices and our revenue from fuel surcharge and accordingly our results of operations.

In 2018, our total aircraft fuel cost was approximately RMB33,680 million, representing an increase of 34.0% from RMB25,131 million in 2017, which was mainly due to an increase in average price of oil as the increased oil production volume of OPEC and other oil suppliers was lower than that the market expected and the political upheaval in the Middle East and Venezuela increased the uncertainty of oil production, and to a lesser extent, an increase in our volume of refueling from 2017 to 2018. We cannot assure you that fuel prices will not fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. However, we intend to continue focusing on enhancing our jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in our fleet and optimizing route structures, which we believe will enable us to control our fuel costs.

### **Ground Facilities and Services**

The center of our operations is Shanghai, one of China's principal air transportation hubs. Our Shanghai operations are based at Hongqiao International Airport and Pudong International Airport. We currently also operate from various other domestic airports. We have hangars, aircraft parking and other airport service facilities at these airports, and provide ground services in these locations.

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.

In 2017, we enhanced the flight management to reduce the delay in takeoff. We also improved our service in self check-in management by optimizing our internal management process. In addition, we deepened our cooperation with Air-France KLM, Delta and other members of the SkyTeam to provide through check-in services in various domestic airports and international airports.

In 2018, we continued to optimize digitalized experiences by increasing the mobile phone, internet and overseas self check-in usage rates. Taking the lead in various indicators of the country (such as the usage rate of self check-in), we achieved usage rate of self check-in of 78.6% in China, representing an increase of 7.4 percentage points compared to 2017, and the usage rate of self check-in for international route amounted to 32.9%, representing an increase of 10.2 percentage points compared to 2017. To provide convenience to our passengers, we also introduced self inquiry function on WeChat in 2018 so that our passengers can check the flight and baggage information easily. In addition, automated security screening has been officially launched in 2018.

### **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 based on price. We have limited flexibility in setting our airfares for domestic routes and adjust our domestic airfares in response to market demand. As part of our overall marketing strategy, we emphasize our commitment to safety and service quality. We believe that emphasis on safety is a critical component of our ability to compete successfully.





We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the Asia Miles frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to Eastern Miles and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels, restaurants and other service providers that are our strategic partners. As a result of our continual efforts to develop the Eastern Miles program, the number of members of the frequent flyer program reached over 22.8 million in 2014. The special services hotline 95530 call center was established and came into operation in 2004. In light of the expansion of national high-speed railway network, we have cooperated with the Shanghai Railway Bureau to launch Air-Rail Pass Transportation products. Our domestic and international flights together with the high-speed railway products at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport, have formed an air-rail two-way transportation product, which has helped us broaden our customer resources.

In terms of our customer resources, we have actively explored and expanded our customer base of high-end business travelers to accelerate the development of group clients. In addition, we have fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, we have strengthened our cooperation with retail stores by increasing the number of co-operative stores, covering various industries such as financial services, hotel, car rental and health services. We also strengthened the operation of points mall, enriched point redemption products, and optimized the points payment function. As of the end of 2018, frequent flyer members of Eastern Miles reached 39.6 million, increased by 18.8% compared to 2017. We actively launched marketing campaigns along with the Spring Festival, Qingming Festival, Double Eleven, etc., to boost our sales. Meanwhile, we placed emphasis on and strengthened the cooperation with travel management companies ( TMC ), online travel agency s (OTA) agents and major customers. In 2018, we continued to intensify and deepen the long-term partnership with Ctrip Computer Technology (Shanghai) Co., Ltd. In 2018, our TMC sales revenue increased by 40.3% year-on-year; our corporate clients increased to 9,283, representing a year-on-year increase of 25.2%; and revenue from our corporate clients increased by 27.8% year-on-year.

Our advertising, marketing and other promotional activities include the use of online platforms, 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 2016, China Eastern Airlines E-Commerce Co., Ltd. ( Eastern E-Commerce ) established an e-commerce platform by integrating our online and offline platforms. Ticket returns, rebooking and upgrades via multiple channels, such as our official website, mobile application and member website were launched with success. In 2017, 12 major updates were made to our mobile application. In 2018, we continuously optimized the customers experience on our official website and mobile application, added and optimized important functions such as pre-flight ordering of in-flight meals and publication of information regarding unusual flights. We vigorously promoted the establishment of overseas e-commerce platform, launched 14 new overseas websites and introduced value-added products such as oversized baggage check-in, VIP lounges and online seat selection.

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

In 2002 and again in 2012, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, we also expedited the construction of nine overseas websites in a variety of languages. Currently, our global website covers North America, Australia, Europe and Asia Pacific. We continue to encourage our customers to book and purchase tickets via the Internet by initiating various promotional campaigns, upgrading and expanding the services offered by our online sales system. In 2012, we introduced China Eastern

Mobile E , a smartphone application that provides mobile flight booking, flight status and online checking services, which we believe will provide our customers with additional convenient, value-added services. In 2013, we introduced a new version of China Eastern Mobile E and increased the application of China Eastern Mobile E to 14 airports. In 2016, we introduced the English version of China Eastern Mobile E to our customers. In addition, we introduced M Website , a website portal that provides mobile flight booking, flight status and online checking services and applied several third-party payment platforms to our ticket booking system. We also increased the success rate of website payment. In addition, we updated the ability for sale activities and self-service.

In 2017, to expand direct sales channels effectively, we launched Air Tickets Market offline while strengthened online sales channels on our official website and mobile user terminals, continued to enhance our ability in direct sales. Our revenue from direct sales increased significantly by 34.3% as compared to 2016 representing 51.2% of revenue, which increased 11 percentage points as compared to 2016 while agency fee expenses reduced continuously. In 2017, the amount of tickets purchased from our official website and mobile application reached approximately 10.5 million and led to the revenue of approximately RMB10.2 billion, representing approximately 16% of the total revenue of ticket sales.

In 2018, we continued to update our mobile phone application and our official website to enhance our direct sales efforts. We vigorously promoted the establishment of overseas e-commerce platform, launched 14 new overseas websites and provided 13 major updates to our mobile phone application. In 2018, revenue from our direct sales channels (including our official website and mobile phone application) reached approximately RMB14.9 billion, representing an increase of approximately 26.7% from 2017. Particularly, revenue generated from sales through our domestic version of mobile phone application reached approximately RMB5.1 billion, representing a year-over-year increase of approximately 62.0%.

We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, we maintain overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg, London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney.

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 currently represents approximately 290 airlines and comprises approximately 82% of the world's 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, 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. In addition, we have entered into distribution agreements with ABACUS, TOPAS, SABRE, GALILEO and AMADEUS.

### ***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.

By the end of 2015, we have entered into frequent flyer and airport lounges agreements with 20 SkyTeam member airlines and implemented code-sharing programs covering 670 routes, as well as 336 routes with non-SkyTeam

member airlines, which has further broadened the coverage of our route network. By the end of 2016, we implemented code-sharing programs with 12 SkyTeam member airlines and the number of code sharing routes with non-SkyTeam member airlines increased by 52% as compared to 2015. We also cooperated with nine SkyTeam member airlines including Delta, Air France and KLM, China, Alitalia, Garuda Indonesia and Iberia in joint check-ins for 21 transit points. By the end of 2017, we implemented code-sharing programs with 14 SkyTeam member airlines. The two newly cooperated SkyTeam members are Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK). In 2018, we continued to expand our code-sharing programs with SkyTeam members on more routes.

By connecting to the route networks of other SkyTeam member airlines, we were able to offer our passengers seamless transit to 25 destinations in 14 countries under a single plane ticket with direct luggage services as of December 31, 2018. Passengers may also enjoy the comfort of more than 750 VIP airport lounges of SkyTeam around the world. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, we will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

### **Tourism and Travel Services**

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

In 2017, Shanghai Airlines Tours continued to optimized its business and leisure travel services under two brands, namely, Shanghai Airlines Travel and Shanghai Airlines Holiday, by developing new tourism products and models. Shanghai Airlines Tours launched its online official store to expand its direct sale channels and consolidated its online and offline channels to make full use of its resources. It also successfully became the supplier of several government departments. In addition, Shanghai Airlines Tours strengthened the cooperation with our other subsidiaries to connect its business to ours to improve the overall service quality and performance. In 2018, Shanghai Airlines Tours continued to connect its business to our main business by promoting the publicity of some of our routes through its travel itineraries and group travel packages as well as providing travel-related services to members within our Group. In addition, Shanghai Airlines Tours further enhanced its online channels by increasing the exposure of its travel products to our mobile phone application and platforms of other famous OTAs.

### **Patents and Trademarks**

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

### **Insurance**

The CAAC purchases fleet insurance from PICC Property and Casualty Company Limited ( PICC ), and China Pacific Property Insurance Company Ltd., on behalf of all Chinese airlines. PICC has reinsured a substantial portion of its aircraft insurance business through Lloyd's of London. The fleet insurance is subject to certain deductibles. The premium payable in connection with the insurance is allocated among all Chinese airlines based on the aircraft owned or leased by these airlines. Under the relevant PRC laws, the maximum civil liability of Chinese airlines for injuries to passengers traveling on domestic flights has been increased to RMB400,000 per passenger in March 2006, for which we also purchase 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 other 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.

### **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, 2018, we operated a fleet of 692 aircraft, including 680 passenger aircraft, most with a seating capacity of over 100 seats and 12 business aircraft held under trust. In 2018, we introduced 67 aircraft of major models. With the introduction of new aircraft, such as A350-900, B787-9 and A320NEO, and the retirement of B767 aircraft, our fleet age structure has been made younger.

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

### Existing Fleet

The following table sets forth the details of our fleet as of December 31, 2018:

| No.  | Model <sup>(1)</sup> | Self-owned | Under finance lease | Under operating lease | Sub-total  | Units Average fleet age (Years) |
|--|----------------------|------------|---------------------|-----------------------|------------|---------------------------------|
| 1  | B777-300ER           | 9          | 11                  | 0                     | 20         | 2.9                             |
| 2  | B787-9               | 0          | 4                   | 0                     | 4          | 0.2                             |
| 3  | A350-900             | 0          | 2                   | 0                     | 2          | 0.1                             |
| 4  | A330 series          | 17         | 34                  | 6                     | 57         | 5.2                             |
| <b>Total number of wide-body aircraft</b>        |                      | <b>26</b>  | <b>51</b>           | <b>6</b>              | <b>83</b>  | <b>4.3</b>                      |
| 5  | A320 series          | 126        | 113                 | 68                    | 307        | 6.7                             |
| 6  | B737 series          | 78         | 96                  | 116                   | 290        | 5.1                             |
| <b>Total number of narrow-body aircraft</b>      |                      | <b>204</b> | <b>209</b>          | <b>184</b>            | <b>597</b> | <b>5.9</b>                      |
| <b>Total number of aircraft</b>                  |                      |            |                     |                       | <b>680</b> | <b>5.7</b>                      |
| <b>Total number of aircraft held under trust</b> |                      |            |                     |                       | <b>12</b>  |                                 |
| <b>Total number of aircraft</b>                  |                      |            |                     |                       | <b>692</b> |                                 |

Note:

(1) A330 series aircraft includes A330-200 aircraft and A330-300 aircraft;

A320 series aircraft includes A319 aircraft, A320 aircraft, A320NEO aircraft and A321 aircraft; and

B737 series aircraft includes B737-700 aircraft, B737-800 aircraft and B737 MAX 8 aircraft.

The table below sets forth the daily average utilization rates of our jet passenger aircraft for the year ended December 31, 2018:

|            | 2018<br>(in hours) |
|------------|--------------------|
| B777-300ER | 14.8               |
| B787-9     | 9.3                |



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|             |      |
|-------------|------|
| A350-900    | 7.9  |
| A330 Series | 12.0 |
| A320 Series | 9.4  |
| B737 Series | 8.5  |

Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. On July 9, 2015, we entered into a purchase agreement with Boeing Company to purchase fifty new Boeing B737 series aircraft which are expected to be delivered to us in stages from 2017 to 2019. On August 14, 2015, we also entered into a purchase agreement with Airbus SAS to purchase fifteen new Airbus A330 series aircraft, which are expected to be delivered to us in stages from 2017 to 2018. On April 28, 2016, we entered into a purchase agreement with Boeing Company to purchase 15 B787-9 aircraft, which are expected to be delivered to us in stages from 2018 to 2021. On the same day, we also entered into a purchase agreement with Airbus SAS to purchase 20 Airbus A350-900 series aircraft, which are expected to be delivered to us in stages from 2018 to 2022.

### *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. Older aircraft models of high energy-consumption will be surrendered as appropriate. Details of the expected fleet plan from 2019 to 2021 are as follows:

| Model                                     | 2019E        |            | 2020E        |            | 2021E        |            |
|---|--------------|------------|--------------|------------|--------------|------------|
|   | Introduction | Retirement | Introduction | Retirement | Introduction | Retirement |
| <b>Passenger aircraft</b>                 |              |            |              |            |              |            |
| A320 Series                               | 25           |            | 30           |            |              |            |
| A330 Series                               |              | 1          |              |            |              |            |
| A350 Series                               | 5            |            | 4            |            | 4            |            |
| B787 Series                               | 6            |            | 3            |            | 2            |            |
| B737 Series                               | 24           |            | 24           | 10         | 12           | 10         |
| <b>Total number of passenger aircraft</b> | <b>60</b>    | <b>1</b>   | <b>61</b>    | <b>10</b>  | <b>18</b>    | <b>10</b>  |

As of December 31, 2018, according to confirmed orders, we planned to introduce 23 aircraft and retire 17 aircraft in 2022 and future years.

The actual quantity and time of the introduction and retirement of any of these aircraft or any additional aircraft may depend on such factors as general economic conditions, the levels of prevailing interest rates, foreign exchange rates, the level of inflation, credit conditions in the domestic and international markets, conditions in the aviation industry in China and globally, our financial condition and results of operations, our financing requirements, and 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 internal funds, 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**

As of December 31, 2018, we (including subsidiaries and branches) had operations on 643 parcels of land, occupying a total area of approximately 2.3 million square meters. In addition, as of December 31, 2018, we (including subsidiaries and branches) owned approximately 2,101 buildings. We and our major subsidiaries have obtained the land use rights certificates and building ownership certificates for most parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the remaining five parcels of land and 15 buildings. We did not have any environmental issues that may have a material impact on our utilization of the assets in 2018.

#### **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 IFRSs. 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 services.

Our overall capacity on an available tonne kilometer, or ATK, basis increased by approximately 10.3% from approximately 27,137 million in 2017 to approximately 29,936 million in 2018 under comparable basis and increased by 9.3% from approximately 27,397 million in 2017 to approximately 29,936 million in 2018 under non-comparable basis, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 8.3% from approximately 225,996 million in 2017 to approximately 244,841 million in 2018. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 9.2%, from approximately 18,651 million in 2017 to approximately 20,358 million in 2018 under comparable basis and increased by 8.0% from approximately 18,856 million in 2017 to approximately 20,358 million in 2018 under non-comparable basis.

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

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

##### **Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with IFRSs which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. We have established procedures and processes to facilitate the making of such judgments in the preparation

of our consolidated financial statements. Management has used the best information available but actual performance may differ from our management's estimates and future changes in key variables could change future reported amounts in our consolidated financial statements.

***Revenue recognition (applicable from January 1, 2018)***

*Revenue from contracts with customers*

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

- (a) Passenger, cargo and mail revenues are recognized as traffic revenue when the transportation is provided or when ticket breakage occurs. The value of sold but unused tickets is included in contract liabilities as sales in advance of carriage ( SIAC ). The Group estimates the value of passenger ticket breakage based on historical trends and experience and recognizes revenue at the scheduled flight date.
- (b) Revenues from the provision of ground services, tour services, ticket cancellation services and other travel related services are recognized when the services are rendered.
- (c) Commission income represents amounts earned from other carriers in respect of sales made by the Group on their behalf, and is recognized upon ticket sales.
- (d) The Group operates a frequent flyer program called Eastern Miles that provides mainly travel awards to program members based on accumulated mileage. A portion of revenue attributable to the award of frequent flyer benefits is deferred until they are utilized. The Group applies the relative standalone selling price approach to allocate a portion of sales to the mileage points issued and recognizes in contract liabilities as frequent flyer program liabilities. The portion of sales attributable to the award of frequent flyer benefits is calculated based on the estimated fair values of the unredeemed award credits and expected redemption rate, which is deferred until they are utilized and expired.

(e) Sale of goods

Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer.

*Revenue from other sources*

Rental income is recognized on a time proportion basis over the lease terms.

*Other income*

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

***Contract liabilities (applicable from January 1, 2018)***

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

***Revenue recognition (applicable before January 1, 2018)***

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

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

(i) Traffic revenues

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

(ii) Ground service income and tour operation revenues

Revenues from the provision of ground services, tour, travel services and other travel related services are recognized when the services are rendered.

(iii) Cargo handling income

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

(iv) Commission income

Commission income represents amounts earned from other carriers in respect of sales made by the Group on their behalf, and is recognized in profit or loss upon ticket sales.

(v) Other revenue

Revenues from other operating businesses, including income derived from the provision of freight forwarding, are recognized when the services are rendered.

(vi) Frequent flyer program

The Group operates a frequent flyer program that provide travel awards to program members based on accumulated miles. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired.

(vii) Interest income

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



The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*Intangible assets*

(i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

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

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

(ii) Computer software costs

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

(iii) Others

Others relate to the capitalized costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights taking off/landing) in Guangzhou Baiyun International Airport Co., Ltd. and Shanghai Pudong International Airport, respectively. These costs are amortized using the straight-line method over their useful lives of 3 years.

***Property, plant and equipment***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for Non-current assets and disposal groups held for sale. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

|   |                |
|---|----------------|
| Owned and finance leased aircraft and engines | 15 to 20 years |
| Other flight equipment, including rotables    | 10 years       |
| Buildings                                     | 8 to 45 years  |
| Other property, plant and equipment           | 3 to 20 years  |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

*Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018)*

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for Revenue recognition (applicable from January 1, 2018) below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortized cost (debt instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

*Financial assets at fair value through other comprehensive income (debt instruments)*

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

***Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018)***

The Group recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

***Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)***

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or

cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment; or



hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before January 1, 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

There is an economic relationship between the hedged item and the hedging instrument.

The effect of credit risk does not dominate the value changes that result from that economic relationship.

The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

## ***Leases***

### **(i) As lessee**

#### ***Finance leases***

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

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

For sale and leaseback transactions resulting in a finance lease, the Group continues to recognize the transferred asset and recognize a financial liability equal to the transfer proceeds.

#### ***Operating leases***

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

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

### **(ii) As lessor**

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

## ***Retirement benefits***

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

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

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees' total salaries and are charged to profit or loss as incurred.

(ii) Defined benefit plan

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

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

the date of the plan amendment or curtailment; and

the date that the Group recognizes restructuring-related costs

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

service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

net interest expense

***Income tax***

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **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.

#### ***Passenger ticket breakage***

The Group recognizes traffic revenues in accordance with the accounting policy stated in note 2.4 to the financial statements. Passenger ticket breakage is recognized as revenue based on estimates. The Group estimates the value of passenger ticket breakage, reduces contract liabilities and recognizes revenue at the scheduled flight date using a portfolio based approach. The breakage rate is estimated and constrained by reference to the historical trend of passenger ticket breakage.

#### ***Frequent flyer program ( FFP )***

Passenger ticket sales earning mileage credits under the Company's FFP provide customers with mileage credits earned and air transportation. The portion of sales attributable to the award of frequent flyer benefits is allocated applying a relative standalone selling price approach. The Group estimates the standalone fair value of the mileage credits by reference to the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ( ETV ). The estimate of ETV is adjusted for mileage credits that are not likely to be redeemed ( mileage credits breakage ). Management uses models to estimate breakage based on historical redemption patterns and unredeemed information. A change in assumptions as to the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on the revenue in the year in which the change occurs and in future years.

Mileage credits breakage is recognized as revenue proportionally during the year in which the remaining mileage credits are actually redeemed.

#### ***Provision for return condition checks for aircraft and engines under operating leases***

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

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

The Group operates and maintains a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employee's service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in note 2.4 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in note 41 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 2.4 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of deductible tax losses carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

### ***Provision for flight equipment spare parts***

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and the Company's future operation plan for the aircraft and related spare parts. The net realizable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

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

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

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

### ***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 3 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates.

### ***Impairment of goodwill***

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

### ***Fair value of unlisted equity investments***

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 51 to the financial statements. The valuation requires the Group to determine the comparable companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences.

The Group classifies the fair value hierarchy of these investments as Level 3.

### **Operating Segments**

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by our chief operating decision-maker ( CODM ). Our CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the PRC Accounting Standards ), which differ from IFRSs in certain aspects. The amount of each material reconciling items from the Group s reportable segment revenue and profit before income tax, arising from different accounting policies are set out in note 4(c) below.

**A. Operating Result**

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

|   | <b>Year Ended December 31,</b> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2014</b>                    | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|   | <b>RMB</b>                     | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| <i>(in millions, except per share or per ADS data)</i>                                |                                |             |             |             |             |
| <b>Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:</b> |                                |             |             |             |             |
| Revenues  | 90,185                         | 93,969      | 98,904      | 102,475     | 115,278     |
| Other operating income and gains  | 3,685                          | 5,269       | 5,469       | 7,481       | 6,592       |
| Operating expenses <sup>(1)</sup>   | (87,812)                       | (86,613)    | (91,887)    | (100,525)   | (112,561)   |
| Operating profit  | 6,058                          | 12,625      | 12,486      | 9,431       | 9,309       |
| Finance income / (costs), net   | (2,072)                        | (7,110)     | (6,176)     | (1,072)     | (5,657)     |
| Profit before income tax  | 4,113                          | 5,667       | 6,497       | 8,610       | 3,856       |
| Profit for the year attributable to the equity holders of the Company                 | 3,410                          | 4,537       | 4,498       | 6,342       | 2,698       |
| Basic and fully diluted earnings per share <sup>(2)</sup>                             | 0.27                           | 0.35        | 0.33        | 0.44        | 0.19        |

|  | <b>As of December 31,</b> |             |             |             |             |
|--|---------------------------|-------------|-------------|-------------|-------------|
|  | <b>2014</b>               | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|  | <b>RMB</b>                | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| <i>(in millions)</i>   |                           |             |             |             |             |
| <b>Consolidated Statements of Financial Position Data:</b>                         |                           |             |             |             |             |
| Cash and cash equivalents  | 1,355                     | 9,080       | 1,695       | 4,605       | 646         |
| Net current liabilities  | (42,887)                  | (51,309)    | (52,194)    | (62,035)    | (57,132)    |
| Non-current assets   | 147,586                   | 174,914     | 196,436     | 211,434     | 223,085     |
| Long term borrowings, including current portion                                    | (41,210)                  | (43,675)    | (29,749)    | (28,842)    | (32,506)    |
| Obligations under finance leases, including current portion                        | (38,695)                  | (52,399)    | (61,041)    | (66,868)    | (77,427)    |
| Total share capital and reserves attributable to the equity holders of the Company | 29,974                    | 37,411      | 49,450      | 55,360      | 58,008      |
| Non-current liabilities  | (72,928)                  | (83,674)    | (91,876)    | (90,621)    | (104,352)   |
| Total assets less current liabilities  | 104,699                   | 123,605     | 144,242     | 149,399     | 165,953     |

Notes:

(1) including gain on fair value changes of derivative financial instruments of RMB11 million, RMB6 million, RMB2 million and RMB311 million for the years ended December 31, 2014, 2015, 2016 and 2018, respectively, and loss on fair value changes of derivative financial instruments of RMB311 million for the year ended December 31, 2017.

(2)

The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue. The calculation of earnings per share for 2016 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 13,811,136,000 ordinary shares in issue. The calculation of earnings per share for 2017 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue. The calculation of earnings per share for 2018 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue.

**2018 Compared to 2017**

Our revenues increased by approximately 12.5% from approximately RMB102,475 million in 2017 to approximately RMB115,278 million in 2018.

In 2018, we transported approximately 121 million passengers, representing an increase of approximately 9.0%, from approximately 111 million passengers in 2017. Our total passenger traffic (as measured in RPKs) increased by approximately 10.0%, from approximately 183,182 million in 2017 to approximately 201,486 million in 2018.

Our total cargo and mail traffic (as measured in RFTKs) increased by approximately 5.3% from approximately 2,458 million in 2017 to approximately 2,588 million in 2018 under comparable basis and decreased by approximately 2.8% from approximately 2,663 million in 2017 to approximately 2,588 million in 2018 under non-comparable basis.

Our average yield for our passenger operations remained relatively stable at RMB0.52 per passenger-kilometers in 2017 and RMB0.54 per passenger-kilometers in 2018.

Our average yield for our cargo and mail operations remained relatively stable at RMB1.36 per freight tonne-kilometers in 2017 and RMB1.40 per freight tonne-kilometers in 2018 under both comparable and non-comparable basis.

The following chart sets forth our revenue breakdown for 2017 and 2018:

|                                | Year Ended               |                     | 2018 vs. 2017          |                          |
|--------------------------------|--------------------------|---------------------|------------------------|--------------------------|
|                                | December 31<br>2017      | December 31<br>2018 | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|                                | <i>(in RMB millions)</i> |                     |                        |                          |
| Traffic revenues               | 95,187                   | 107,937             | 12,750                 | 13.4                     |
| Passenger revenue              | 91,564                   | 104,309             | 12,745                 | 13.9                     |
| Cargo and mail revenue         | 3,623                    | 3,627               | 4                      | 0.1                      |
| Others <sup>(1)</sup>          | 7,288                    | 7,341               | 53                     | 0.7                      |
| <b>Total Operating Revenue</b> | <b>102,475</b>           | <b>115,278</b>      | <b>12,803</b>          | <b>12.5</b>              |

Notes:

- (1) Including tour operations income, ground service income, cargo handling income and processing income, commission income and others.

*Passenger revenues*

Our passenger traffic revenues increased by approximately RMB12,745 million, or approximately 13.9%, from approximately RMB91,564 million in 2017 to approximately RMB104,309 million in 2018. This increase was primarily due to increased passenger demand and increase in scheduled flights, as well as robust demand for outbound tourism.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues) amounted to approximately RMB68,619 million in 2018, which accounted for approximately 65.8% of our total passenger traffic revenues in 2018, increased by approximately 14.0% from approximately RMB60,180 million in 2017, primarily due to increased passenger demand. Our domestic passenger traffic (as measured in RPKs) increased by approximately 10.2% from approximately 117,033 million in 2017 to approximately 128,906 million in 2018. The number of passengers carried on domestic routes increased by approximately 8.6% from approximately 93 million in 2017 to

approximately 101 million in 2018. Our passenger-kilometers yield for domestic routes remained relatively stable at RMB0.54 per passenger-kilometer in 2017 and RMB0.56 per passenger-kilometer in 2018.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) amounted to approximately RMB3,821 million in 2018, which accounted for approximately 3.7% of our total passenger traffic revenues in 2018, increased by approximately 11.7% from approximately RMB3,420 million in 2017, primarily due to the increase of passenger volume. Our regional passenger traffic (as measured in RPKs) increased by approximately 11.2% from approximately 4,758 million in 2017 to approximately 5,289 million in 2018. The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by approximately 11.4% from approximately 3.5 million in 2017 to approximately 3.9 million in 2018. Our passenger-kilometers yield for regional routes remained relatively stable at RMB0.72 per passenger-kilometer in 2017 and RMB0.73 per passenger-kilometer in 2018.

Our international passenger traffic revenues amounted to approximately RMB31,869 million in 2018, which accounted for approximately 30.6% of our total passenger traffic revenues in 2018, increased by approximately 14.0% from approximately RMB27,964 million in 2017, primarily due to increased international passenger demand and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by approximately 9.6% from approximately 61,391 million in 2017 to approximately 67,290 million in 2018. The number of passengers carried on international routes increased by approximately 9.5% from approximately 14.7 million in 2017 to approximately 16.1 million in 2018. Our passenger-kilometers yield for international routes remained relatively stable at RMB0.47 per passenger-kilometer in 2017 and RMB0.49 per passenger-kilometer in 2018.

#### *Cargo and mail revenues*

Our cargo and mail traffic revenues accounted for approximately 3.4% of our total traffic revenues in 2018 and remained relatively stable at approximately RMB3,623 million in 2017 and approximately RMB3,627 million in 2018. Cargo and mail yield remained relatively stable at approximately RMB1.36 per freight tonne-kilometers in 2017 and approximately RMB1.40 per freight tonne-kilometers in 2018.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues) accounted for approximately 27.3% of our total cargo and mail traffic revenues in 2018 and remained relatively stable at approximately RMB985 million in 2017 and approximately RMB989 million in 2018. Our freight tonne-kilometers yield for domestic routes remained relatively stable at RMB1.10 per freight tonne-kilometers in 2017 and RMB1.12 per freight tonne-kilometers in 2018.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues) amounted to approximately RMB196 million in 2018, which accounted for approximately 5.4% of our total cargo and mail traffic revenues in 2018, increased by approximately 23.3% from approximately RMB159 million in 2017, mainly due to the increased cargo transportation demand and increase in scheduled flights. Our freight tonne-kilometers yield for regional routes increased by 56.7% from RMB3.56 per freight tonne-kilometers in 2017 to RMB5.57 per freight tonne-kilometers in 2018 under non-comparable basis and increased by 53.9% from RMB3.62 per freight tonne-kilometers in 2017 to RMB5.57 per freight tonne-kilometers in 2018 under comparable basis.

International cargo and mail traffic revenues accounted for approximately 67.3% of our total cargo and mail traffic revenues in 2018 and remained relatively stable at approximately RMB2,478 million in 2017 and approximately RMB2,442 million in 2018. Our freight tonne-kilometers yield for international routes was RMB1.44 per freight tonne-kilometers under non-comparable basis in 2017, RMB1.46 per freight tonne-kilometers under comparable basis in 2017 and RMB1.47 per freight tonne-kilometers in 2018, remaining relatively stable in 2017 and 2018.

#### *Other revenues*

We also generated revenues from other services, including tour operations, airport ground services, cargo handling and processing 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 remained relatively stable at approximately RMB7,288 million in 2017 and approximately RMB7,341 million in 2018.

**Operating Expenses**

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2017 and 2018:

|   | Year Ended        |                  | 2017 vs. 2018   |             |
|---|-------------------|------------------|-----------------|-------------|
|   | 2017              | 2018             | (Increase)      | % Increase  |
|   | December 31       |                  | Decrease        | (Decrease)  |
|   | (in RMB millions) |                  |                 |             |
| <b>Operating Expenses:</b>                      |                   |                  |                 |             |
| Aircraft fuel expenses                          | (25,131)          | (33,680)         | (8,549)         | 34.0        |
| Take-off and landing charges                    | (13,254)          | (14,914)         | (1,660)         | 12.5        |
| Depreciation and amortization                   | (13,969)          | (15,313)         | (1,344)         | 9.6         |
| Wages, salaries and benefits                    | (20,320)          | (22,134)         | (1,814)         | 8.9         |
| Aircraft maintenance                            | (5,346)           | (3,738)          | 1,608           | (30.1)      |
| Impairment charges                              | (494)             | (318)            | 176             | (35.6)      |
| Impairment losses on financial assets, net      | 3                 | (27)             | (30)            | 1000.0      |
| Food and beverages                              | (3,090)           | (3,383)          | (293)           | 9.5         |
| Aircraft operating lease rentals                | (4,318)           | (4,306)          | 12              | (0.3)       |
| Other operating lease rentals                   | (836)             | (928)            | (92)            | 11.0        |
| Selling and marketing expenses                  | (3,294)           | (3,807)          | (513)           | 15.6        |
| Civil aviation development fund                 | (2,080)           | (2,235)          | (155)           | 7.5         |
| Ground services and other expenses              | (3,248)           | (2,845)          | 403             | (12.4)      |
| Fair value changes of financial asset at        |                   |                  |                 |             |
| fair value through profit or loss               |                   | (27)             | (27)            |             |
| (Loss)/gain on fair value changes of derivative |                   |                  |                 |             |
| financial instruments                           | (311)             | 311              | 622             | (200.0)     |
| Indirect operating expenses                     | (4,837)           | (5,217)          | (380)           | 7.9         |
| <b>Total Operating Expense</b>                  | <b>(100,525)</b>  | <b>(112,561)</b> | <b>(12,036)</b> | <b>12.0</b> |

Our total operating expenses increased by approximately 12.0% from approximately RMB100,525 million in 2017 to approximately RMB112,561 million in 2018. Under the influence of further expansion of our operational scale and the rapid growth in the passenger traffic volume and the number of passengers carried, our various costs such as aircraft take-off and landing costs, catering, depreciation and amortization increased from 2017. Our total operating expenses accounted for approximately 97.6% of our operating revenue in 2018, representing a decrease from approximately 98.1% in 2017.

Aircraft fuel expenses increased by approximately 34.0% from approximately RMB25,131 million in 2017 to approximately RMB33,680 million in 2018. The increase was primarily due to an increase of 24.9% in the average price of fuel, leading to an increase in the aircraft fuel costs by RMB6,720 million, and to a lesser extent, the increase in our volume of refueling of 7.3% from 2017, leading to an increase in aircraft fuel costs by RMB1,829 million.

Take-off and landing charges increased by 12.5% from approximately RMB13,254 million in 2017 to approximately RMB14,914 million in 2018, primarily due to the increase in the number of our aircraft take-offs and landings and the adjustment of pricing standards of China's airports since April 2017 in accordance with the Circular on Printing and Distributing Plan for Adjusting Charge Standards of Civil Airports (CAAC 2017 Notice No.18). In 2018, the increased frequency of our various international long-haul routes such as routes to Europe, the United States and



Australia, combining the effect of adjustment of pricing standards, resulted in an increase in international as well as domestic take-off and landing charges.

Depreciation and amortization increased by approximately 9.6% from approximately RMB13,969 million in 2017 to approximately RMB15,313 million in 2018, primarily due to the increase in aircraft and engines (self-owned and under finance leases) added to our fleet in 2018, leading to an increase in the original value of fixed assets and a corresponding increase in depreciation.

Wages, salaries and benefits, which accounted for approximately 19.7% of our total operating expenses in 2018, increased by approximately 8.9% from approximately RMB20,320 million in 2017 to approximately RMB22,134 million in 2018, primarily due to the combined effect of the increase in the number of aircrew, the increase in flight hours and the rise in the standard flight hour fees.

Aircraft maintenance expenses, which accounted for approximately 3.3% of our total operating expenses in 2018, decreased by approximately 30.1% from approximately RMB5,346 million in 2017 to approximately RMB3,738 million in 2018, primarily due to the decrease in the number of engines sent for maintenance in 2018.

Food and beverage expenses increased by approximately 9.5% from approximately RMB3,090 million in 2017 to approximately RMB3,383 million in 2018, primarily due to the increase in the number of passengers carried and the rise in standards required for the provision of catering.

Other operating lease rentals increased by approximately 11.0% from approximately RMB836 million in 2017 to approximately RMB928 million in 2018, primarily due to an increase in the rentals for office premises and VIP rooms.

Selling and marketing expenses increased by approximately 15.6% from approximately RMB3,294 million in 2017 to approximately RMB3,807 million in 2018, in line with our increased sales.

The amount of civil aviation development fund to the CAAC increased by approximately 7.5% from approximately RMB2,080 million in 2017 to approximately RMB2,235 million in 2018, primarily due to the increase in the flying length in 2018.

Ground services and other expenses decreased by approximately 12.4% from approximately RMB3,248 million in 2017 to approximately RMB2,845 million in 2018, primarily due to the decrease in the cost of subsidiaries for ancillary businesses.

Indirect operating expenses increased by approximately 7.9% from approximately RMB4,837 million in 2017 to approximately RMB5,217 million in 2018, primarily due to the expansion of our fleet scale, which led to a corresponding increase in relevant expenses.

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

Changes in fair value of derivative financial instruments was recorded a gain of approximately RMB311 million in 2018, as compared to a loss of approximately RMB311 million in 2017. The difference was mainly due to the fair value movement of forward foreign exchange contracts in 2018.

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

Our other operating income and gains mainly consists of co-operation routes income, the rest being income from disposal of property, plant and equipment and subsidy income. The total amount of our other operating income and gains decreased by approximately 11.9% from approximately RMB7,481 million in 2017 to approximately RMB6,592 million in 2018, primarily because that we recorded the income from the disposal of interest in Eastern Logistics in 2017 while we did not record such income in 2018.

#### ***Net Finance Costs***

In 2018, our finance income was approximately RMB110 million, representing an decrease of approximately RMB2,002 million from approximately RMB2,112 million in 2017, primarily because we recorded net exchange gains arising from the appreciation of RMB of approximately RMB2,001 million in 2017 while we recorded net exchange losses in 2018. Finance costs amounted to approximately RMB5,767 million in 2018, representing an increase of approximately RMB2,583 million from approximately RMB3,184 million in 2017, primarily due to net exchange losses arising from the depreciation of RMB of approximately RMB2,040 million during the year.

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

As a result of the foregoing, the net profit attributable to the equity holders of the Company decreased by approximately 57.5% from approximately RMB6,342 million in 2017 to approximately RMB2,698 million in 2018. The decrease was mainly due to the increase in finance costs, the increase in fuel costs and the one-off gain from disposal of a subsidiary in 2017.

***Property, Plant and Equipment***

We had approximately RMB180,104 million of property, plant and equipment as of December 31, 2018, including, among other assets, aircraft, engines and flight equipment, representing an increase of 7.9% from approximately RMB166,856 million in 2017. The increase was mainly due to an increase in the number of aircraft.

## 2017 Compared to 2016

### Revenues

Our revenues increased by approximately 3.6%, from approximately RMB98,904 million in 2016 to approximately RMB102,475 million in 2017. Revenues increased in our passenger business operations, primarily due to increased passenger demand and increase in scheduled flights, which was partially offset by decreased revenue in our cargo and mail business operations, primarily due to disposal of Eastern Logistics in 2017.

In 2017, we transported approximately 111 million passengers, representing an increase of approximately 8.9%, from approximately 102 million passengers in 2016. Our total passenger traffic (as measured in RPKs) increased by approximately 9.3%, from approximately 167,529 million in 2016 to approximately 183,182 million in 2017.

Our total cargo and mail traffic (as measured in RFTKs) increased by approximately 6.7%, from approximately 2,495 million in 2016 to approximately 2,663 million in 2017 under comparable basis and decreased by approximately 45.4% from approximately 4,875 million in 2016 to approximately 2,663 million in 2017 under non-comparable basis.

Our average yield for our passenger operations remained relatively stable at RMB0.517 in 2016 and RMB0.521 per in 2017.

Our average yield for our cargo and mail operations increased by approximately 8.8% from approximately RMB1.25 in 2016 to approximately RMB1.36 in 2017.

The following chart sets forth our revenue breakdown for 2016 and 2017:

|                                | Year Ended          |                     | 2017 vs. 2016          |                          |
|--------------------------------|---------------------|---------------------|------------------------|--------------------------|
|                                | December 31<br>2016 | December 31<br>2017 | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|                                | (in RMB millions)   |                     |                        |                          |
| Traffic revenues               | 89,554              | 95,187              | 5,633                  | 6.3                      |
| Passenger revenue              | 83,577              | 91,564              | 7,987                  | 9.6                      |
| Cargo and mail revenue         | 5,977               | 3,623               | (2,354)                | (39.4)                   |
| Others <sup>(1)</sup>          | 9,350               | 7,288               | (2,062)                | (22.1)                   |
| <b>Total Operating Revenue</b> | <b>98,904</b>       | <b>102,475</b>      | <b>3,571</b>           | <b>3.6</b>               |

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

### Passenger revenues

Our passenger traffic revenues increased by approximately RMB7,987 million, or approximately 9.6%, from approximately RMB83,577 million in 2016 to approximately RMB91,564 million in 2017. This increase was primarily due to increased passenger demand and increase in scheduled flights, as well as robust demand for outbound tourism.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for approximately 65.7% of our total passenger traffic revenues in 2017, increased by approximately 11.2% from approximately RMB54,137 million in 2016 to approximately RMB60,180 million in 2017, primarily due to increased passenger demand. Compared to 2017, our domestic passenger traffic (as measured in RPKs) increased by approximately 10.0% from approximately 106,361 million in 2016 to approximately 117,033 million in 2017. The number of passengers carried on domestic routes increased by approximately 10.0% from approximately 84 million in 2016 to approximately 93 million in 2017. Our passenger-kilometers yield for domestic routes remained relatively stable at RMB0.53 per passenger-kilometer in 2016 and RMB0.54 in 2017.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for approximately 3.7% of our total passenger traffic revenues in 2017, increased by approximately 11.1% from approximately RMB3,078 million in 2016 to approximately RMB3,420 million in 2017, primarily due to the increase of passenger volume. Our regional passenger traffic (as measured in RPKs) increased by approximately 9.5% in 2017 from approximately 4,347 million in 2016 to approximately 4,758 million in 2017. The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by approximately 9.3% from approximately 3.2 million in 2016 to approximately 3.5 million in 2017. Our passenger-kilometers yield for regional routes remained relatively stable at RMB0.71 in 2016 and RMB0.72 in 2017.

International passenger traffic revenues, which accounted for approximately 30.6% of our total passenger traffic revenues in 2017, increased by approximately 6.1% from approximately RMB26,362 million in 2016 to approximately RMB27,964 million in 2017. The increase was primarily due to increased international passenger demand and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by approximately 8.0% in 2017 from approximately 56,821 million in 2016 to approximately 61,391 million in 2017. The number of passengers carried on international routes increased by approximately 2.5% from approximately 14.3 million in 2016 to approximately 14.7 million in 2017. Our passenger-kilometers yield for international routes remained relatively stable at RMB0.471 in 2016 and RMB0.470 in 2017.

#### *Cargo and mail revenues*

Our cargo and mail traffic revenues decreased by approximately 39.4%, from approximately RMB5,977 million in 2016 to approximately RMB3,623 million in 2017, which accounted for approximately 3.8% of our total traffic revenues in 2017. Cargo and mail yield increased by approximately 8.8% from approximately RMB1.25 in 2016 to approximately RMB1.36 in 2017.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for approximately 27.2% of our total cargo and mail traffic revenues in 2017, decreased from approximately RMB1,026 million in 2016 to approximately RMB985 million in 2017. This decrease was primarily due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for domestic routes remained relatively stable at RMB1.07 in 2016 and RMB1.10 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for domestic routes remained stable at RMB1.10 in 2016 and RMB1.10 in 2017 under comparable basis.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for approximately 4.4% of our total cargo and mail traffic revenues in 2017, decreased by approximately 57.5%, from approximately RMB374 million in 2016 to approximately RMB159 million in 2017, mainly due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for regional routes increased from RMB2.98 in 2016 to RMB3.56 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for regional routes increased from RMB3.04 in 2016 to RMB3.56 in 2017 under comparable basis.

International cargo and mail traffic revenues, which accounted for approximately 68.4% of our total cargo and mail traffic revenues in 2017, decreased by approximately 45.8%, from approximately RMB4,576 million in 2016 to approximately RMB2,478 million in 2017, mainly due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for international routes increased from RMB1.24 in 2016 to RMB1.44 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for international routes increased from RMB1.30 in 2016 to RMB1.44 in 2017 under comparable basis.

#### *Other revenues*

We also generated revenues from other services, including tour operations, airport ground services, cargo handling and processing 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 approximately 22.1% from approximately RMB9,350 million in 2016 to approximately RMB7,288 million in 2017, primarily due to disposal of Eastern Logistics, which also handles certain airport ground services, cargo handling and processing services.

**Operating Expenses**

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2016 and 2017:

|   | Year Ended        |                  | 2017 vs. 2016          |                          |
|---|-------------------|------------------|------------------------|--------------------------|
|   | 2016              | 2017             | (Increase)<br>Decrease | % Increase<br>(Decrease) |
|   | December 31       |                  |                        |                          |
|   | (in RMB millions) |                  |                        |                          |
| <b>Operating Expenses:</b>  |                   |                  |                        |                          |
| Aircraft fuel expenses  | (19,626)          | (25,131)         | (5,505)                | 28.0                     |
| Take-off and landing charges  | (12,279)          | (13,254)         | (975)                  | 7.9                      |
| Depreciation and amortization   | (12,154)          | (13,969)         | (1,815)                | 14.9                     |
| Wages, salaries and benefits  | (18,145)          | (20,320)         | (2,175)                | 12.0                     |
| Aircraft maintenance  | (4,960)           | (5,346)          | (386)                  | 7.8                      |
| Impairment charges  | (29)              | (491)            | (462)                  | 1,593.1                  |
| Food and beverages  | (2,862)           | (3,090)          | (228)                  | 8.0                      |
| Aircraft operating lease rentals                                      | (4,779)           | (4,318)          | 461                    | (9.6)                    |
| Other operating lease rentals   | (868)             | (836)            | 32                     | (3.7)                    |
| Selling and marketing expenses  | (3,133)           | (3,294)          | (161)                  | 5.1                      |
| Civil aviation development fund                                       | (1,945)           | (2,080)          | (135)                  | 6.9                      |
| Ground services and other expenses                                    | (5,058)           | (3,248)          | 1,810                  | (35.8)                   |
| (Loss)/gain on fair value changes of derivative financial instruments | 2                 | (311)            | (313)                  | (15,650.0)               |
| Indirect operating expenses   | (6,051)           | (4,837)          | 1,214                  | (20.0)                   |
| <b>Total Operating Expense</b>  | <b>(91,887)</b>   | <b>(100,525)</b> | <b>(8,638)</b>         | <b>9.4</b>               |

Our total operating expenses increased by approximately 9.4% from approximately RMB91,887 million in 2016 to approximately RMB100,525 million in 2017 primarily due to the influence of further expansion of our operational scale and the rapid growth in the passenger traffic volume and the number of passengers carried. Our various costs such as take-off and landing costs, food and beverages, and depreciation and amortization increased from the previous year. Our total operating expenses accounted for approximately 98.1% of our operating revenue in 2017, representing an increase from approximately 92.9% in 2016.

Aircraft fuel expenses increased by approximately 28.0% from approximately RMB19,626 million in 2016 to approximately RMB25,131 million in 2017. The increase was primarily due to the increase in the volume of refueling by 4.5% and average fuel price by 22.5%.

Take-off and landing charges, which accounted for 13.2% of our total operating expenses in 2017, increased by 7.9% from approximately RMB12,279 million in 2016 to approximately RMB13,254 million in 2017, primarily due to the increase in our number of flights and the increase in our number of take-offs and landings. Meanwhile, the domestic take-off and landing charges increased due to the adjustment of pricing standards of China's airports (CAAC 2017 Notice No. 18).

Depreciation and amortization increased by approximately 14.9% from approximately RMB12,154 million in 2016 to approximately RMB13,969 million in 2017, primarily due to the net addition of aircraft self owned and under finance leases to our fleet in 2017. The increase in the number of aircraft and engines led to an increase in the original value of fixed assets and a corresponding increase in depreciation.



Wages, salaries and benefits, which accounted for approximately 20.2% of our total operating expenses in 2017, increased by approximately 12.0% from approximately RMB18,145 million in 2016 to approximately RMB20,320 million in 2017, primarily due to the combined effect of the increase in the number of flight-crew and maintenance personnel, the increase in flight hours and the rise in the standard flight hour fees. Additional information regarding the changes in our retirement benefits is disclosed in Note 7 to the consolidated financial statements.

Aircraft maintenance expenses, which accounted for approximately 5.3% of our total operating expenses in 2017, increased by approximately 7.8% from approximately RMB4,960 million in 2016 to approximately RMB5,346 million in 2017, primarily due to the net addition of nine wide-body aircraft and 46 narrow-body aircraft, which led to an increase in maintenance fees for aircraft and engines.

Food and beverage expenses increased by approximately 8.0% from approximately RMB2,862 million in 2016 to approximately RMB3,090 million in 2017, primarily due to the increase in the number of passengers carried and the rise in standards required for the provision of catering.

Aircraft operating lease rentals decreased by approximately 9.6% from approximately RMB4,779 million in 2016 to approximately RMB4,318 million in 2017, primarily due to the decrease of seven cargo aircraft under operating leases upon the disposal of the equity interest in Eastern Logistics.

Other operating lease rentals decreased by approximately 3.7% from approximately RMB868 million in 2016 to approximately RMB836 million in 2017, primarily due to the decrease of fees for ground assets under lease.

Selling and marketing expenses increased by approximately 5.1% from approximately RMB3,133 million in 2016 to approximately RMB3,294 million in 2017, primarily due to the increase in the proportion of direct sales for the year.

The amount of civil aviation development fund to the CAAC increased by approximately 6.9% from approximately RMB1,945 million in 2016 to approximately RMB2,080 million in 2017, primarily due to the increase in the length of miles flown in 2017.

Ground services and other expenses decreased by approximately 35.8% from approximately RMB5,058 million in 2016 to approximately RMB3,248 million in 2017, primarily due to the disposal of interest in Eastern Logistics in 2017.

Indirect operating expenses decreased by approximately 20.0% from approximately RMB6,051 million in 2016 to approximately RMB4,837 million in 2017, primarily due to the disposal of interest in Eastern Logistics in 2017.

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

Changes in fair value of derivative financial instruments was recorded a loss of approximately RMB311 million in 2017, as compared to a gain of approximately RMB2 million in 2016. The difference was mainly due to the fair value movement of forward foreign exchange contracts in 2017.

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

Our other operating income mainly consists of subsidy income from cooperative routes, the rest being income from disposal of a subsidiary and income from government subsidies. The total amount of our other operating income and gains increased by approximately 36.8% from approximately RMB5,469 million in 2016 to approximately RMB7,481 million in 2017, primarily due to the disposal of interest in Eastern Logistics.

#### ***Net Finance Costs***

In 2017, our finance income was approximately RMB2,112 million, representing an increase of approximately RMB2,016 million from approximately RMB96 million in 2016. Finance costs amounted to approximately RMB3,184 million in 2017, representing a decrease of approximately RMB3,088 million in 2016, primarily due to net exchange gains arising from the appreciation of RMB of approximately RMB2,001 million during the year.

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

As a result of the foregoing, the net profit attributable to the equity holders of the Company increased by approximately 41.0% from approximately RMB4,498 million in 2016 to approximately RMB6,342 million in 2017. The increase was mainly due to the increase in revenue and other operating income and gains.

***Property, Plant and Equipment***

We had approximately RMB166,856 million of property, plant and equipment as of December 31, 2017, including, among other assets, aircraft, engines and flight equipment, representing a 8.9% increase from approximately RMB153,180 million in 2016. The increase was mainly due to an increase in the number of aircraft.

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## **Inflation**

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 2.1% in 2014, 1.4% in 2015, 2.0% in 2016, 1.6% in 2017 and 2.1% in 2018. 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.

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

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

As of December 31, 2016, 2017 and 2018, we had RMB1,695 million, RMB4,605 million and RMB646 million, respectively, in cash and cash equivalents; RMB56,732 million, RMB63,801 million and RMB55,152 million, respectively, in outstanding borrowings; and RMB43 million, RMB51 million and RMB16 million, respectively, in restricted bank deposits and short-term bank deposits. Our cash and cash equivalents primarily consists of cash on hand and deposits that are placed with banks and other financial institutions. We plan to use the remaining available cash for other capital expenditures, including expenditures for aircraft, engines and related equipment, as well as for working capital and other day-to-day operating purposes.

In addition, our current liabilities exceeded our current assets by approximately RMB57,132 million as of December 31, 2018. Therefore, the directors of the Company ( Directors ) have taken active steps to seek additional sources of financing to improve our liquidity position. As of December 31, 2018, we had total unutilized credit facilities of RMB56.2 billion from various banks. See the discussion below under Working Capital and Liabilities .

We believe that our current cash, cash equivalents, anticipated cash flow from operations, and the ability to obtain sufficient financing will enable us to operate, as well as to meet our anticipated cash needs for working capital and capital expenditure requirements for at least the next 12 months. However, additional cash may be required 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 2018, we generated a net cash inflow from operating activities of RMB22,338 million as a result of cash generated from operations of RMB24,047 million less income tax we paid in 2018. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB24,115 million and negative changes in working capital of RMB68 million. The operating profit before working capital changes of RMB24,115 million was a result of the profit before income tax of RMB3,856 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB15,084 million, (ii) interest expenses of RMB3,727 million and (iii) net foreign exchange losses of RMB1,983 million. Negative changes in working capital mainly consisted of (i) prepayments and other receivables of RMB2,056 million and (ii) other long-term liabilities of RMB525 million, partly offset by (i) contract liabilities of RMB1,051 million and (ii) trade and bills payables of RMB856 million.

In 2017, we generated a net cash inflow from operating activities of RMB19,572 million as a result of cash generated from operations of RMB21,108 million less income tax we paid in 2017. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB22,004 million and negative changes in working capital of RMB896 million. The operating profit before working capital changes of RMB22,004 million was

a result of the profit before income tax of RMB8,610 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB13,769 million, (ii) net foreign exchange gain of RMB2,378 million and (iii) interest expenses of RMB3,184 million. Negative changes in working capital mainly consisted of (i) prepayments and other receivables of RMB753 million, (ii) other long-term liabilities of RMB728 million and (iii) sales in advance of carriage of RMB569 million, partly offset by (i) trade and bills payables of RMB1,725 million and (ii) other payables and accruals of RMB340 million.

In 2016, we generated a net cash inflow from operating activities of RMB24,893 million as a result of cash generated from operations of RMB26,154 million less income tax we paid in 2016. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB24,464 million and positive changes in working capital of RMB1,690 million. The operating profit before working capital changes of RMB24,464 million was a result of the profit before income tax of RMB6,497 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB12,345 million, (ii) net foreign exchange losses of RMB3,246 million and (iii) interest expenses of RMB2,641 million. Positive changes in working capital mainly consisted of (i) sales in advance of carriage of RMB1,836 million and (ii) other payables and accruals of RMB1,424 million, partly offset by (i) other long-term liabilities of RMB883 million and (ii) prepayments and other receivables of RMB839 million.

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

In 2018, our net cash outflow from investing activities was RMB12,780 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB15,342 million and (ii) additions of property, plant and equipment of RMB10,653 million. These cash outflows were partly offset by (i) proceeds from novation of purchase rights of RMB7,483 million and (ii) proceeds from disposal of property, plant and equipment of RMB5,493 million.

In 2017, our net cash outflow from investing activities was RMB21,312 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB16,759 million and (ii) additions of property, plant and equipment of RMB7,796 million. These cash outflows were partly offset by proceeds from disposal of property, plant and equipment of RMB1,043 million and proceeds from disposal of interest in a subsidiary of RMB1,897 million.

In 2016, our net cash outflow from investing activities was RMB37,180 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB16,864 million and (ii) additions of property, plant and equipment of RMB21,533 million. These cash outflows were partly offset by (i) proceeds from disposal of assets classified as held for sale of RMB518 million and (ii) proceeds from disposal of property, plant and equipment of RMB690 million.

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

In 2018, our net cash outflow from financing activities was RMB13,558 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB36,066 million, (ii) repayments of short-term debentures of RMB26,500 million, (iii) repayments of principal of finance lease obligations of RMB9,629 million and (iv) repayments of long-term bank loans of RMB7,592 million. These cash outflows were partly offset by (i) proceeds from issuance of short-term debentures of RMB31,000 million, (ii) proceeds from draw down of short-term bank loans of RMB19,144 million, (iii) proceeds from draw down of long-term bank loans and other financing activities of RMB18,693 million and (iv) proceeds from issuance of long-term debentures and bonds of RMB2,938 million.

In 2017, our net cash inflow from financing activities was RMB4,708 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB33,629 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB12,320 million, (iii) proceeds from issuance of short-term debentures of RMB29,000 million and (iv) proceeds from issuance of long-term bonds of RMB2,450 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB18,383 million, (ii) repayments of long-term bank loans of RMB3,246 million, and (iii) repayments of short-term debentures of RMB36,000 million.

In 2016, our net cash inflow from financing activities was RMB4,634 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB39,159 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB26,545 million, (iii) proceeds from issuance of short-term debentures of RMB47,500 million and (iv) proceeds from issuance of long-term bonds of RMB12,526 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB36,728 million, (ii) repayments of long-term bank loans of RMB28,803 million, and (iii) repayments of short-term debentures of RMB46,000 million.

## Working Capital and Liabilities

We have, and in the future may continue to have, substantial debts. In addition, we generally operate with a working capital deficit. As of December 31, 2018, our current liabilities exceeded our current assets by RMB57,132 million. In comparison, our current liabilities exceeded our current assets by RMB62,035 million as of December 31, 2017. Our current liabilities decreased by 9.0% from RMB80,328 million as of December 31, 2017 to RMB73,064 million as of December 31, 2018, primarily due to the decrease in the current portion of borrowings. Our current assets decreased by 13.0% from RMB18,293 million as of December 31, 2017 to RMB15,932 million as of December 31, 2018, primarily due to the decrease in cash and cash equivalents. Short-term loans outstanding totaled RMB39,090 million and RMB29,259 million as of December 31, 2017 and 2018, respectively. Long-term outstanding bank loans totaled RMB24,711 million and RMB25,867 million as of December 31, 2017 and 2018, respectively.

As of December 31, 2018, our debt ratio, representing total liabilities divided by total assets, was 0.74. 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, 2017 and 2018 for the purpose of calculating the indebtedness were as follows:

|              | <b>As of December 31,</b> |               |
|--------------|---------------------------|---------------|
|              | <b>2017</b>               | <b>2018</b>   |
|              | <i>(in RMB millions)</i>  |               |
| Secured      | 19,908                    | 19,063        |
| Unsecured    | 43,893                    | 36,089        |
| <b>Total</b> | <b>63,801</b>             | <b>55,152</b> |

Our maturity profile of interest-bearing borrowings as of December 31, 2017 and 2018 was as follows:

|                                      | <b>As of</b>             |               |
|--------------------------------------|--------------------------|---------------|
|                                      | <b>December 31,</b>      | <b>2018</b>   |
|                                      | <b>2017</b>              | <b>2018</b>   |
|                                      | <i>(in RMB millions)</i> |               |
| Within one year                      | 39,090                   | 29,265        |
| In the second year                   | 6,527                    | 7,474         |
| In the third to fifth year inclusive | 8,797                    | 14,271        |
| After the fifth year                 | 9,387                    | 4,142         |
| <b>Total</b>                         | <b>63,801</b>            | <b>55,152</b> |

As of December 31, 2018, our interest rates relating to short-term borrowings ranged from 2.97% to 4.48%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 2.65% to 4.25%. Our bank loans are denominated in Renminbi, U.S. dollars and Euros. As of December 31, 2018, our total bank loans denominated in Renminbi amounted to RMB23,038 million, our total bank loans denominated in U.S. dollars amounted to US\$1,064 million and our total bank loans denominated in EUR amounted to EUR569 million.

On March 9, 2018, we issued JPY-denominated credit enhanced bonds (Series 1 JPY10,000,000,000 0.33% Bonds due 2021, Series 2 JPY20,000,000,000 0.64% Bonds due 2021 and Series 3 JPY20,000,000,000 0.64% Bonds due 2021), which was listed on the professional oriented TOKYO PRO-BOND Market of the Tokyo Stock Exchange on



March 19, 2018. See Note 39 to the consolidated financial statements for the issuance of JPY bonds.

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, 2018, according to the relevant agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB70,998 million, including approximately RMB29,187 million in 2019 and approximately RMB24,735 million in 2020, 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, 2018 to December 31, 2018 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, 2018:

|                               |       | Less Than |           |           | More Than |
|-------------------------------|-------|-----------|-----------|-----------|-----------|
|                               | Total | 1 Year    | 1-2 Years | 2-4 Years | 4 Years   |
| Long-Term Debt <sup>(1)</sup> | 9,563 | 1,073     | 4,972     | 1,390     | 2,128     |

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|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| Capital Leases <sup>(2)</sup>                      | 77,427 | 9,364  | 9,692  | 16,926 | 41,445 |
| Operating Leases <sup>(3)</sup>                    | 32,763 | 5,073  | 4,360  | 7,499  | 15,831 |
| Unconditional Purchase Obligations <sup>(4)</sup>  | 70,998 | 29,187 | 24,735 | 16,483 | 593    |
| Other Long-term Obligations <sup>(5)(6)</sup>      | 3,448  |        |        |        |        |
| Post-retirement Benefit Obligations <sup>(5)</sup> | 2,712  |        |        |        |        |
| Deferred Tax Liabilities <sup>(5)</sup>            | 84     |        |        |        |        |
| Short-term Bank Loans <sup>(7)</sup>               | 8,120  | 8,120  |        |        |        |
| Interest Obligations                               |        |        |        |        |        |
| Under Finance Leases                               | 13,553 | 2,610  | 2,323  | 3,739  | 4,881  |
| Under Bank Loans                                   | 724    | 277    | 92     | 60     | 15     |
| Fixed Rate   | 396    | 318    | 30     | 40     | 8      |
| Variable Rate <sup>(8)</sup>                       | 328    | 239    | 62     | 20     | 7      |

Notes:

- (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 frequent flyer programs.
- (7) Short-term bank loans are generally repayable within one year. As of December 31, 2018, the weighted average interest rate of our short-term bank loans was 3.96% per annum (2017: 3.53%).
- (8) For our variable rate loans, interest rates range from six month LIBOR + 55% to six months LIBOR + 285%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2018. A 25 basis points increase in the interest rate would increase interest expenses by RMB112 million.

| Other Commercial<br>Commitments/Credit Facilities | Total<br>Amounts<br>Committed | Amount of Commitment Expiration Per Period |               |                  |
|---|-------------------------------|--|---------------|------------------|
|   |                               | Less Than<br>1 Year                        | 1-3 Years     | After<br>5 Years |
|   |                               | (RMB in millions)                          |               |                  |
| Lines of Credit                                   | 56,200                        | 16,503                                     | 11,050        | 28,647           |
| Standby Letters of Credit                         |                               |  |               |                  |
| Guarantees  |                               |  |               |                  |
| <b>Total</b>                                      | <b>56,200</b>                 | <b>16,503</b>                              | <b>11,050</b> | <b>28,647</b>    |

## **Taxation**

We had carried forward tax losses of approximately RMB267 million as of December 31, 2018, which can be used to set off against future taxable income between 2019 and 2023.

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 increase the applicable corporate income tax rate gradually to 25% over the next five years from 2008. China Eastern Yunnan Airlines Co., Ltd. (CEA Yunnan), a subsidiary of the Group, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from January 1, 2011. The Company's Sichuan branch, Gansu branch and Xibei branch also obtained approvals from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax rate of 16.5% (2017:16.5%). Eastern E-commerce, a subsidiary of the Company, qualifying for High and New Technology Enterprise (HNTE) status pursuant to the Administrative measures for the determination of high and new technology enterprises (Guokehuofa [2016] No.32), has been entitled to a reduced corporate income tax rate of 15% from January 1, 2018 (2017:25%) with the approval from tax authorities.

The Company and its subsidiaries except for CEA Yunnan, Eastern E-commerce, Sichuan branch, Gansu branch and Xibei branch and those incorporated in Hong Kong, are generally subject to income tax at the PRC standard corporate income tax rate of 25% (2017:25%).

## **New Pronouncements**

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

## **G. Safe Harbor**

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

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

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

| Name         | Age | Shares Owned   | Position                                   |
|--------------|-----|----------------|--|
| Liu Shaoyong | 60  |                | Chairman of the Board of Directors         |
| Yuan Jun     | 58  |                | Employee Representative Director           |
| Li Ruoshan   | 70  |                | Independent Non-executive Director         |
| Ma Weihua    | 70  |                | Independent Non-executive Director         |
| Shao Ruiqing | 61  |                | Independent Non-executive Director         |
| Cai Hongping | 64  |                | Independent Non-executive Director         |
| Lin Wanli    | 57  |                | Independent Non-executive Director         |
| Xi Sheng     | 56  |                | Chairman of the Supervisory Committee      |
| Li Jinde     | 58  |                | Supervisor                                 |
| Gao Feng     | 55  |                | Employee Representative Supervisor         |
| Li Yangmin   | 55  | 3,960 A Shares | President                                  |
| Wu Yongliang | 55  | 3,696 A Shares | Vice President and Chief Financial Officer |
| Feng Liang   | 54  |                | Vice President                             |
| Feng Dehua   | 53  |                | Vice President                             |
| Jiang Jiang  | 54  |                | Vice President                             |
| Wang Jian    | 45  |                | Board Secretary and Company Secretary      |

#### Directors

**Mr. Liu Shaoyong**, is currently the Chairman and party secretary of the Company and Chairman and party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed as vice president of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration of the PRC, general manager of the Shanxi Branch of the Company, and director general of Flight Standard Department of CAAC. Mr. Liu served as President of the Company from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004, president of China Southern Air Holding Company from August 2004 to December 2008, chairman of China Southern Airlines Co., Limited. from November 2004 to December 2008. Mr. Liu served as president and vice party secretary of CEA Holding from December 2008 to December 2016, and became the Chairman of the Company since February 2009. He served as the Chairman and party secretary of CEA Holding since December 2016 and the party secretary of the Company since December 2017. Mr. Liu is also currently the member of the 13th National Committee of the Chinese People's Political Consultative Conference, the council member of International Air Transport Association and the vice chairman of International Advisory Board of School of Management, Fudan University. Mr. Liu graduated from the China Civil Aviation Flight College and obtained a Master of Business Administration degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

**Mr. Yuan Jun**, is currently an employee representative Director and chairman of the labor union of the Company and an employee representative director and chairman of the labor union of CEA Holding. Mr. Yuan entered civil aviation industry in 1997. From May 2007 to October 2011, Mr. Yuan was the deputy head and head of Work Department of Party Committee of the Company. From October 2011 to May 2016, he was the general manager of Human Resources

Department of the Company. From July 2014 to March 2018, he served as the chief human resources officer of the Company. From June 2015 to September 2016, he concurrently served as the general manager of Ground Services Department and the deputy secretary of Party Committee of the Company. From September 2016 to October 2018, he served as the head of Human Resources Department of CEA Holding. He has served as an employee representative director of CEA Holding from December 2017, an employee representative Director of the Company since February 2018, the chairman of the labor union of the Company since April 2018 and the chairman of the labor union of CEA Holding since May 2018. Mr. Yuan is also the vice president of Shanghai Technician Association. Mr. Yuan holds an executive master's degree in business administration from Fudan University and a senior political work specialist title.

**Mr. Li Ruoshan**, is currently an independent non-executive Director. Mr. Li is currently a professor and PhD supervisor of the Accounting Department of the School of Management of Fudan University. In 2001, Mr. Li was awarded the "The Best 10 Independent Directors in China" by the Shanghai Stock Exchange. Mr. Li graduated from Xiamen University, majoring in accounting and obtained the first doctoral degree in auditing in the PRC. He has studied abroad in the Katholieke Universiteit Leuven in Belgium, the Massachusetts Institute of Technology in the United States and other famous universities. Mr. Li was a deputy director of the Accounting Department of the School of Economics and a deputy dean of the School of Economics of Xiamen University; and a deputy dean of the School of Management, director of the Accounting Department, director of the Financial Department of Fudan University, a member of the Consultant Professional Committee for Listed Companies of the Shanghai Stock Exchange and a consultant professional of the Committee for Accounting Standards of the Ministry of Finance. Mr. Li has been an independent non-executive Director since June 2013. He is also the independent director of companies such as SAIC Motor Corporation Limited, Shenzhen Yantian Port Chukong Logistics Co., Ltd. and Shanghai Zhangjiang Hi-tech Park Development Co., Ltd., and supervisor of Industrial Bank Co., Ltd. and a director of Jiangsu Zhongnan Construction Group Co., Ltd.

**Mr. Ma Weihua**, is currently an independent non-executive Director. Mr. Ma is currently the director-general of Council of National Fund for Technology Transfer and Commercialization and the One Foundation. Mr. Ma served as an executive director, president and chief executive officer of China Merchants Bank Co., Limited, the chairman of Wing Lung Bank Limited in Hong Kong, the chairman of CIGNA & CMC Life Insurance Company Limited and the chairman of China Merchants Fund Management Co., Limited. Mr. Ma obtained a doctorate degree in economics and is an adjunct professor at several higher educational institutions including Peking University and Tsinghua University. Mr. Ma has been the independent non-executive Director since October 2013. Mr. Ma is currently an independent director of China World Trade Center Co., Limited, Postal Savings Bank of China Co., Limited Legend Holdings Corporation and other companies at the same time and a supervisor of Taikang Life Insurance Co., Limited and chairman of Bison Finance Group.

**Mr. Shao Ruiqing**, is currently an independent non-executive Director. Mr. Shao currently serves as a professor in accounting and a PhD supervisor at the Shanghai Lixin University of Commerce. Mr. Shao served as the deputy dean and dean of the School of Economics and Management of Shanghai Maritime University and the deputy dean of Shanghai Lixin University of Commerce. Mr. Shao was awarded the special allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport, as an expert in finance and accounting and the deputy head of China Association of Communications Accountancy. Mr. Shao successively graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a bachelor's degree in economics, and master's and doctoral degrees in management. Mr. Shao has spent two and a half years studying and being a senior visiting scholar in the U.K. and Australia. Mr. Shao has served as an independent non-executive Director since June 2015. Mr. Shao is also an independent director of Tibet Urban Development And Investment Co., Ltd, Huayu Automotive Systems Company Limited and Shanghai Carthane Co., Ltd.

**Mr. Cai Hongping**, is currently an independent non-executive Director. Mr. Cai currently serves as the chairman of AGIC Capital. He is a resident of Hong Kong. He worked for Sinopec Shanghai Petrochemical Company Limited (Sinopec Shanghai) from 1987 to 1993. He participated in the listing of Sinopec Shanghai in Hong Kong and the United States (the first company of the PRC to be listed in the Hong Kong Stock Exchange and the United States) and is one of the founders of H shares in the PRC. From 1992 to 1996, he acted as a member of the Overseas Listing Team for Chinese Enterprises under the Restructuring Committee of the State Council and the chairman of the Joint Committee of Board Secretaries for H Share Companies in the PRC. He served as a joint director of the investment banking division of Peregrine Investments Holdings Limited in Asia from 1996 to 2006, chairman of the investment banking division of UBS AG in Asia from 2006 to 2010, chairman of Deutsche Bank in the Asia Pacific region from 2010 to 2015 and chairman of AGIC Capital since February 2015. Since June 2016, Mr. Cai has served as an independent non-executive Director. Mr. Cai is also an independent non-executive director of China Oceanwide



Holdings Limited, an external director of China Minmetals Corporation and an independent director of COSCO SHIPPING Development Co., Ltd. Mr. Cai graduated from Fudan University, majoring in mass communications.

**Mr. Lin Wanli**, is currently an independent non-executive Director. Mr. Lin is currently an external director of Central Enterprise. Mr. Lin served as a vice party secretary and secretary of the disciplinary committee of the Tunnel Bureau of Ministry of Railways from December 1995 to March 2001, the vice chairman and party secretary of China Railway Tunnel Group Co., Ltd. from April 2001 to December 2006, and a vice party secretary, secretary of the disciplinary committee and chairman of the labor union of China Northern Locomotive and Rolling Stock Industry (Group) Corporation from January 2007 to August 2013. He served as the president and party secretary of China Railway Materials Commercial Corporation and the chairman and party secretary of China Railway Materials Co., Ltd. from August 2013 to June 2015, a director and party secretary of China National Aviation Fuel Group Corporation from July 2015 to November 2016, and the chairman of China Aviation Oil (Singapore) Corporation Ltd. from August 2015 to February 2017. Since November 2016, he has served as an external director of central enterprise. Since February 2017, he has served as an external director of China National Agricultural Development Group Co., Ltd. Since January 2018, he has served as a non-executive director of China Construction Science & Technology Group Co., Ltd. Since August 2018, he has served as an independent Director. Mr. Lin graduated from the Economics Faculty of Shandong University and obtained an executive master's degree in business administration from Tsinghua University. He is a researcher-level senior political work specialist and senior economist.

## Supervisory Committee

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

**Mr. Xi Sheng**, is currently the chairman of Supervisory Committee of the Company, vice president, party member, chief auditor and director of audit department of CEA Holding. Mr. Xi served as the deputy head of the foreign affairs department II of the foreign funds utilization and application audit department and the head of the liaison and reception office of the foreign affairs department of the National Audit Office of the PRC and the deputy head of the PRC Audit Institute. He was also the deputy head and head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Since June 2012, he has been a supervisor of the Company. Since June 2016, he has been the chairman of Supervisory Committee of the Company. He served as the head of the audit department of CEA Holding from December 2017 to November 2018 and the director of audit department of CEA Holding since November 2018. Since January 2018, he served as the vice president and party member of CEA Holding. Mr. Xi is also the council member of China Institute of Internal Audit and vice chairman of the 2nd session of supervisory committee of China Association for Public Companies. Mr. Xi graduated from Jiangxi University of Finance and Economics with undergraduate education background. He is a senior auditor, a Chinese Certified Public Accountant (CPA) and an International Certified Internal Auditor (CIA).

**Mr. Li Jinde**, is currently a supervisor of the Company and the director of strategic development department of CEA Holding. Mr. Li joined the civil aviation industry in 1989 and worked successively in the Northwest Regional Administration of Civil Aviation Administration of China and investment companies under CEA Holding. He served as a deputy manager of living services center of Northwest Regional Administration of Civil Aviation Administration and the president of its Development Company from March 1992 to April 1999, and the president of Shanghai Eastern Airline Real Estate Operation Company and the chairman and president of Shanghai Eastern Airline Real Estate Investment Co., Ltd. from April 1999 to May 2006. He successively served as the president, vice party secretary, chairman and party secretary of Shanghai Eastern Airline Industry Investment Co., Limited from May 2006 to December 2017. He has served as the director of strategic development department of CEA Holding since December 2017 and a supervisor of the Company since August 2018. Mr. Li graduated from the Faculty of Horticulture of Gansu Agricultural University and obtained a master's degree in business administration from Macau University of Science and Technology. He obtained the title of intermediate economist.

**Mr. Gao Feng**, is currently an employee representative supervisor of the Company and vice chairman of the labor union of the Company and the vice chairman of the labor union of CEA Holding. Mr. Gao joined the civil aviation industry in 1984 and worked in China General Aviation Corporation. He served as a vice party secretary, secretary of the disciplinary committee and chairman of the labor union of the Shanxi branch of the Company. He served as the party secretary of the Shanxi branch of the Company from July 2009 to January 2014 and the party secretary, vice president and executive vice president of China United Airlines Co., Ltd. from January 2014 to October 2015. He has served as the executive vice chairman of the labor union and director of the labor union office of the Company since October 2015, the vice chairman of the labor union of CEA Holding since April 2018 and an employee representative supervisor of the Company since August 2018. Mr. Gao graduated from the Central Party School of the Communist Party of China majoring in economic management, and obtained an executive master's degree in business administration from Fudan University. He obtained a senior political work specialist title.

## Senior Management

**Mr. Li Yangmin**, is currently the President and vice party secretary of the Company. Mr. Li is also a director, the president and vice party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Branch Company and vice president of China Eastern Air Northwest Branch Company. From October 2005 to March 2019, he has also been a vice president of the Company. He served as Safety Director of the Company from July 2010 to December 2012. He has become a party member of CEA Holding since May 2011. He was a Director with effect from June 2011 to August 2018 and served as the party secretary of the Company from June 2011 to December 2017. He served as the vice party secretary of CEA Holding since August 2016 and the vice president of CEA Holding, from August 2016 to February 2019. Since December 2017, he served as the vice party secretary of the Company. He has served as a director and the president of CEA Holding since February 2019 and the President of the Company since March 2019. Mr. Li graduated from the Civil Aviation University of China and Northwestern Polytechnical University with master's degrees and obtained an Executive Master of Business Administration degree from Fudan University. He is also a qualified professor-level senior engineer.

**Mr. Tian Liuwen**, is currently a vice president of the Company and vice president and a party member of CEA Holding. Mr. Tian joined the civil aviation industry in 1985. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the head of the general manager office and chairman of the labor union and deputy general manager of the Shanxi branch of the Company. From June 2002 to January 2008, he was the vice president and subsequently president of the Hebei branch of the Company. From April 2005 to May 2007, he was the president of the Beijing Base of the Company. He served as general manager of China Eastern Airlines Jiangsu Co., Limited, from January 2008 to December 2011. Since December 2011, he has been the vice president of the Company. From December 2011 to June 2013, he was the president of Shanghai Airlines. Since June 2014, he has been a party member of CEA Holding. From June 2015 to August 2018, he served as a Director of the Company. Since December 2016, he served as the vice president of CEA Holding. Mr. Tian obtained an Executive Master of Business Administration degree from Nanjing University and is qualified as senior economist.

**Mr. Wu Yongliang**, is currently a vice president and chief financial officer of the Company, and vice president, chief accountant and party member of CEA Holding. Mr. Wu joined the civil aviation industry in 1984 and served as deputy head and subsequently head of the Finance Department of the Company, head of Planning and Finance Department of the Company and head of the Finance Department of CEA Holding. From April 2001 to March 2009, he served as deputy chief accountant and head of the Finance Department of CEA Holding. From March 2009 onwards, he has served as chief financial officer of the Company. He has been a vice president of the Company since December 2011. He has been a vice president and party member of CEA Holding since November 2017. Since June 2018, he has served as the chief accountant of CEA Holding. Mr. Wu graduated from the Faculty of Economic Management of Civil Aviation University of China, majoring in planning and finance. He also graduated from Fudan University, majoring in business administration. Mr. Wu holds a MBA degree and is a certified accountant.

**Mr. Feng Liang**, is currently a vice president of the Company. Mr. Feng joined the civil aviation industry in 1986 and worked in the aircraft maintenance base routes department of the Company. From 1999 to 2006, he used to serve as the head of the aircraft maintenance base engineering technology department, chief engineer of the base and general manager of the base. He also served as the general manager of China Eastern Air Engineering & Technique after it was established in September 2006 until November 2018. He served as the chief engineer of the Company from August 2010 to March 2018, the chief security officer of the Company from December 2012 to December 2014 and the vice president of the Company since August 2013. Mr. Feng graduated from Civil Aviation University of China, majoring in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiao Tong University.

**Mr. Feng Dehua**, is currently a vice president of the Company and the deputy head of party disciplinary inspection group of CEA Holding. Mr. Feng joined the civil aviation industry in 1989, and has successively worked in China General Aviation Corporation, the Shanxi branch of the Company and the sales and marketing system of the Company. From May 2009 to July 2009, Mr. Feng was the executive vice president for sales and marketing of passenger transportation department of the Company. From July 2009 to November 2011, he was the party secretary and vice president for sales and marketing of passenger transportation department of the Company. From November 2011 to August 2014, he was the president and deputy party secretary of the Beijing branch of the Company. From August 2014 to December 2017, he was the secretary of the Disciplinary Committee of the Company. Since September 2014, he has been the deputy head of party disciplinary inspection group of CEA Holding. Since December 2017, he has been a vice president of the Company. Mr. Feng graduated from Shanxi Finance and Economics Institute majoring in commercial business management and obtained an executive master's degree in business administration from Fudan University. He is qualified as a senior economist.

**Mr. Jiang Jiang**, is currently a vice president of the Company. Mr. Jiang joined the civil aviation industry in 1986, and has successively worked in the Civil Aviation Industry Airline Corporation and China General Aviation Corporation. From June 1999 to April 2005, he served as the deputy manager and manager of the flight division of the

Shanxi Branch of the Company. From April 2005 to July 2010, he was the deputy general manager of the Shanxi Branch. From July 2010 to June 2014, he served as the general manager and the deputy secretary of the party committee of the Shanxi Branch. From June 2014 to December 2016, he served as the deputy secretary of the party committee of China Eastern Airlines Wuhan Limited ( Eastern Wuhan ). He served as director and general manager of Eastern Wuhan from June 2014 to April 2017. From December 2016 to February 2017, he has served as the person-in-charge of the safety operation management of the Company. Since February 2017, he has served as a vice president of the Company. Mr. Jiang graduated from the Flight College of Civil Aviation Flight University of China, majoring in aviation transportation and obtained an Executive Master of Business Administration degree from Fudan University. He has the professional title of senior pilot.

**Mr. Wang Jian**, is currently the Company's Board secretary and head of the Board office. Mr. Wang joined the Company in 1995 and served as deputy head of the Company's office and deputy general manager of the Shanghai Business Office of the Company. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern Airlines Company Limited. He served as the head of the Board office of the Company and a representative of the Company's Securities affairs from May 2009 to April 2012. He served as the Board secretary and the head of the Board office of the Company from April 2012 to May 2016. He ceased to serve as the head of the Board office in May 2016 and has served as the head of the Board office since May 2018. During his term as secretary to the Board and his relevant work, he designed and promoted to implement several capital and strategic projects of the Company. Mr. Wang graduated from Shanghai Jiao Tong University and has a Master of Business Administration postgraduate degree from East China University of Science and Technology and an Executive Master of Business Administration degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

### **Retired Director, Supervisor and Senior Management During the Reporting Period**

**Mr. Ma Xulun**, was the vice chairman, president and vice party committee secretary of the Company, vice chairman, president, and vice party secretary of CEA Holding. Mr. Ma was previously vice president of China Commodities Storing and Transportation Corporation, deputy director general of the Finance Department of the CAAC and vice president of Air China Corporation Limited. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China Corporation Limited. Mr. Ma served as president and deputy party secretary of Air China Corporation Limited from September 2004 to January 2007. Mr. Ma became a party member of China National Aviation Holding Company from December 2004 to December 2008, and deputy general manager of China National Aviation Holding Company from January 2007 to December 2008. Mr. Ma served as the president and deputy party secretary of the Company from December 2008 to February 2019 and deputy party secretary of CEA Holding from December 2008 to November 2011. Mr. Ma was a Director from February 2009 to February 2019. Mr. Ma served as vice president of the Company from November 2011 to February 2019. He served as party secretary and vice president of CEA Holding from November 2011 to December 2016. He served as vice chairman, president and vice party secretary of CEA Holding from December 2016 to February 2019. Mr. Ma is also currently the deputy president of China Association for public companies. Mr. Ma graduated from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma holds a master's degree and is a PRC Certified Public Accountant (CPA).

**Mr. Li Yangmin**, is currently the President and vice party secretary of the Company. Mr. Li is also a director, the president and vice party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Branch Company and vice president of China Eastern Air Northwest Branch Company. From October 2005 to March 2019, he has also been a vice president of the Company. He served as Safety Director of the Company from July 2010 to December 2012. He has become a party member of CEA Holding since May 2011. He was a Director with effect from June 2011 to August 2018 and served as the party secretary of the Company from June 2011 to December 2017. He served as the vice party secretary of CEA Holding since August 2016 and the vice president of CEA Holding. from August 2016 to February 2019. Since December 2017, he served as the vice party secretary of the Company. He has served as a director and the president of CEA Holding since February 2019 and the President of the Company since March 2019. Mr. Li graduated from the Civil Aviation University of China and Northwestern Polytechnical University with master's degrees and obtained an Executive Master of Business Administration degree from Fudan University. He is also a qualified professor-level senior engineer.

**Mr. Xu Zhao**, was a Director of the Company, and the chief accountant of CEA Holding during the reporting period. Mr. Xu served as engineer and accountant of Dongfeng Motor Group Company Limited, manager of the finance department of Shanghai Yanhua High Technology Limited Company, and chief financial officer of Shaanxi Heavy

Duty Automobile Co., Limited. Mr. Xu has served as the chief accountant of CEA Holding from November 2006 to January 2018. He was a supervisor of the Company from June 2007 to November 2011. He has served as a Director of the Company from June 2012 to February 2018. Mr. Xu graduated from Chongqing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master's degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

**Mr. Gu Jiadan**, was a Director of the Company. Mr. Gu was the assistant to president, and the general manager of the commerce department and the party secretary of Shanghai Airlines Co., Limited From May 2005 to August 2009, he was the vice president and a party member of Shanghai Airlines. From August 2009 to January 2010, he was the acting president of Shanghai Airlines. From January 2010 to December 2016, he was a party member and vice president of CEA Holding. From January 2010 to July 2011, he served as the party secretary of Shanghai Airlines. He was a Director of the Company from June 2012 to August 2018. Mr. Gu Jiadan holds a master's degree and is a senior economist.

**Mr. Tang Bing**, was a Director and vice president of the Company, and is currently a vice party secretary of the Company and a director and vice party secretary of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as vice executive president (general manager representing Chinese shareholder) of MTU Maintenance Zhuhai Co., Limited., office director of China Southern Airlines Holding Company and president of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern Airlines Company Limited. From May 2009 to December 2009, he was appointed as president of the Beijing Branch of the Company and was the president of Shanghai Airlines from January 2010 to December 2011. He served as the chairman and executive director of Shanghai Airlines from January 2012 to January 2018 and a vice president of the Company from February 2010 to March 2019. He was appointed a party member of CEA Holding in May 2011. He served as a Director of the Company from June 2012 to August 2018 and a vice president of CEA Holding from December 2016 to February 2019. Since February 2019, he served as a director and vice party secretary of CEA Holding. Mr. Tang graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a Master of Business Administration degree from the Administration Institute of Sun Yat-sen University, an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University and a doctoral degree in national economics from the Graduate School of Chinese Academy of Social Sciences. He is also a qualified senior engineer.

**Mr. Tian Liuwen**, was a Director and is currently a vice president of the Company and vice president and a party member of CEA Holding. Mr. Tian joined the civil aviation industry in 1985. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the head of the general manager office and chairman of the labor union and deputy general manager of the Shanxi branch of the Company. From June 2002 to January 2008, he was the vice president and subsequently president of the Hebei branch of the Company. From April 2005 to May 2007, he was the president of the Beijing Base of the Company. He served as general manager of China Eastern Airlines Jiangsu Co., Limited, from January 2008 to December 2011. Since December 2011, he has been the vice president of the Company. From December 2011 to June 2013, he was the president of Shanghai Airlines. Since June 2014, he has been a party member of CEA Holding. From June 2015 to August 2018, he served as a Director of the Company. Since December 2016, he served as the vice president of CEA Holding. Mr. Tian obtained an Executive Master of Business Administration degree from Nanjing University and is qualified as senior economist.

**Mr. Ba Shengji**, was a supervisor of the Company and the chairman of the labor union of CEA Holding. Mr. Ba joined the civil aviation industry in 1978. He served as the section manager and deputy head of the finance department. He was the chief officer of the auditing office of the Company from March 1997 to October 1997, chief officer of the auditing office of CEA Holding from October 1997 to July 2000, head of the audit department of CEA Holding from July 2000 to January 2003, chief officer of disciplinary committee office, head of supervision department and head of audit department of CEA Holding from January 2003 to May 2003. He served as the deputy head of party disciplinary inspection group, chief officer of disciplinary committee office, head of supervision department and head of the audit department of CEA Holding from May 2003 to November 2006. He was the secretary of the disciplinary committee of the Company from November 2006 to November 2009 and the secretary of the disciplinary committee and chairman of the labor union of the Company from November 2009 to November 2011. He served as the deputy secretary of the party committee and secretary of the disciplinary committee of the Company from November 2011 to August 2013. He was a Supervisor of the Company from June 2013 to August 2018. He served as the chairman of the labor union of CEA Holding from August 2013 to January 2018. Mr. Ba graduated from Shanghai Television University.

**Mr. Hu Jidong**, was a supervisor and chairman of the labor union of the Company and chief financial officer and vice chairman of the labor union of CEA Holding. Mr. Hu joined the civil aviation industry in 1977. He has been the deputy head of the party promotion department of the Company, deputy head and head of the party work department of CEA Holding, and head of the party publicity department of CEA Holding. He was the chairman of the labor union of the Company from December 2011 to April 2018, deputy party secretary of the Company from August 2013 to



December 2017, secretary of the disciplinary committee of the Company from August 2013 to August 2014, and Supervisor of the Company from June 2016 to August 2018. He served as the chief financial officer and vice chairman of the labor union of CEA Holding from November 2017 to June 2018. Mr. Hu graduated from Shanghai University with a major in cultural management and Fudan University with a major in administrative management.

**Mr. Feng Jinxiong**, was a supervisor of the Company and consultant of the audit department of CEA Holding. Mr. Feng joined the civil aviation industry in 1982, and served as deputy head and head of the Planning Department of the Company, head of the Finance Department and deputy chief accountant of CEA Holding, manager of the Human Resources Department of the Company, vice president and party secretary of CES Finance, and deputy general manager of the Shanghai Security Department of the Company. He also served as president of Eastern Wuhan from January 2007 to February 2009. He served as general manager of the Audit Department of the Company from February 2009 to December 2017. He was a supervisor of the Company from March 2009 to July 2018. He has been the head of the audit department of CEA Holding from May 2014 to December 2017. He served as consultant of the audit department of CEA Holding from December 2017 to July 2018. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, and holds a master's degree.

**Mr. Jia Shaojun**, was a supervisor of the Company. Mr. Jia was general manager of the financial department and secretary of party general branch of the financial department of the Company. He served as general manager of the finance and accounting department of the Company from December 2011 to November 2012 and head of the audit department of CEA Holding from November 2012 to May 2014. He has acted as head of the financial department of CEA Holding from May 2014 to December 2017. . He acted as supervisor of the Company from June 2016 to August 2018. Mr. Jia graduated from Civil Aviation College of China and Fudan University School of Management, and holds an executive MBA degree. He is qualified as a senior accountant.

**Mr. Guo Junxiu**, was the chief legal adviser of the Company. Mr. Guo joined the civil aviation industry in 2007 and successively worked in Shanxi University of Finance and Economics and Xiamen University. Since April 2007, he has served as the chief legal adviser of CEA Holding. Since May 2018, he has served as the data protection officer of the Company. He served as the chief legal adviser of the Company from August 2018 to February 2019, and has served as the director of legal affairs of the Company since February 2019. Mr. Guo graduated from Xiamen University with a degree in international law and obtained a doctorate degree in law. He obtained the title of associate professor and the qualification of lawyer.

## B. Compensation

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2018 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB10.0 million. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2018 are as follows:

| <b>Name and Principal Position</b>         | <b>Total <sup>(1)</sup></b> |
|--|-----------------------------|
|  | RMB 000                     |
| <b>Directors</b>                           |                             |
| Liu Shaoyong*                              |                             |
| Ma Xulun*                                  |                             |
| Xu Zhao*                                   |                             |
| Gu Jiadan*                                 |                             |
| Li Yangmin*                                |                             |
| Tang Bing*                                 |                             |
| Tian Liuwen*                               |                             |
| Yuan Jun <sup>(2)</sup>                    | 867                         |
| <b>Independent Non-executive Directors</b> |                             |
| Li Ruoshan                                 | 200                         |
| Shao Ruiqing                               | 200                         |
| Ma Weihua                                  | 200                         |
| Cai Hongping                               | 200                         |
| Lin Wanli                                  |                             |
| <b>Supervisors</b>                         |                             |
| Xi Sheng*                                  |                             |
| Feng Jinxiong <sup>(3)</sup>               | 346                         |
| Ba Shengji*                                |                             |
| Hu Jidong                                  |                             |
| Jia Shaojun*                               |                             |

|                            |               |
|----------------------------|---------------|
| Li Jinde*                  |               |
| Gao Feng <sup>(3)(4)</sup> | 251           |
| <b>Senior Management</b>   |               |
| Wu Yongliang*              |               |
| Feng Liang                 | 1,872         |
| Feng Dehua                 | 1,870         |
| Jiang Jiang <sup>(5)</sup> | 2,333         |
| Wang Jian                  | 1,682         |
| <b>Chief Legal Adviser</b> |               |
| Guo Junxiu                 |               |
| <b>Total</b>               | <b>10,021</b> |

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

*Notes:*

- (1) The emoluments paid are calculated based on the time period from the date of appointment of respective Director, supervisor and senior management to December 31, 2018.
  - (2) Mr. Yuan Jun, the employee representative Director, started to receive emoluments from CEA Holding from July 1, 2018. The emoluments paid by us as disclosed here is calculated based on the time period from January 1, 2018 to June 30, 2018.
  - (3) The emoluments of Mr. Feng Jinxiong and Mr. Gao Feng are paid according to the structural emolument policy while the emoluments of other Directors, supervisors and senior management of the Company are paid according to the annual salary system.
  - (4) Mr. Gao Feng became a supervisor of the Company in August 2018 and his emolument is calculated based on the time period from August 1, 2018 to December 31, 2018.
  - (5) Mr. Jiang Jiang, our vice president, is also a pilot whose emolument includes flight service benefits.
- During the year ended December 31, 2018, no Directors or supervisors of the Company waived their compensation.

### C. Board Practices

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

| <b>Name</b>  | <b>Position</b>                    | <b>Held Position Since</b> | <b>Expiration of Term</b> |
|--------------|------------------------------------|----------------------------|---------------------------|
| Liu Shaoyong | Chairman of the Board of Directors | June 15, 2016              | June 30, 2019             |
| Ma Xulun     | Vice Chairman                      | June 15, 2016              | February 1, 2019          |
|              | President                          | June 15, 2016              | February 1, 2019          |
|              | Director                           | June 15, 2016              | August 30, 2018           |
| Li Yangmin   | Vice President                     | June 15, 2016              | March 15, 2019            |
|              | President                          | March 15, 2019             | June 30, 2019             |
|              | Director                           | June 15, 2016              | February 6, 2018          |
| Xu Zhao      | Director                           | June 15, 2016              | August 30, 2018           |
| Gu Jiadan    | Director                           | June 15, 2016              | August 30, 2018           |
| Tang Bing    | Director                           | June 15, 2016              | August 30, 2018           |
|              | Vice President                     | June 15, 2016              | March 15, 2019            |
| Tian Liuwen  | Director                           | June 15, 2016              | August 30, 2018           |
|              | Vice President                     | June 15, 2016              | June 30, 2019             |
| Yuan Jun     | Director                           | February 8, 2018           | June 30, 2019             |
| Li Ruoshan   | Independent Non-executive Director | June 15, 2016              | June 30, 2019             |
| Ma Weihua    | Independent Non-executive Director | June 15, 2016              | June 30, 2019             |
| Shao Ruiqing | Independent Non-executive Director | June 15, 2016              | June 30, 2019             |
| Cai Hongping | Independent Non-executive Director | June 15, 2016              | June 30, 2019             |
| Lin Wanli    | Independent Non-executive Director | August 30, 2018            | June 30, 2019             |

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|               |                                       |                   |                   |
|---------------|---------------------------------------|-------------------|-------------------|
| Xi Sheng      | Chairman of the Supervisory Committee | June 15, 2016     | June 30, 2019     |
| Gao Feng      | Employee Representative Supervisor    | August 30, 2018   | June 30, 2019     |
| Li Jinde      | Supervisor                            | August 30, 2018   | June 30, 2019     |
| Ba Shengji    | Supervisor                            | June 15, 2016     | August 30, 2018   |
| Hu Jidong     | Supervisor                            | June 15, 2016     | August 30, 2018   |
| Feng Jinxiong | Supervisor                            | June 15, 2016     | July 13, 2018     |
| Jia Shaojun   | Supervisor                            | June 15, 2016     | August 30, 2018   |
| Wu Yongliang  | Vice President                        | June 15, 2016     | June 30, 2019     |
|               | Chief Financial Officer               | June 15, 2016     | June 30, 2019     |
| Feng Liang    | Vice President                        | June 15, 2016     | June 30, 2019     |
| Feng Dehua    | Vice President                        | December 25, 2017 | June 30, 2019     |
| Jiang Jiang   | Vice President                        | February 22, 2017 | June 30, 2019     |
| Wang Jian     | Company Secretary                     | June 15, 2016     | June 30, 2019     |
| Guo Junxiu    | Chief Legal Adviser                   | August 30, 2018   | February 15, 2019 |

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

### **Audit and Risk Management Committee**

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. Our Audit and Risk Management Committee comprised Mr. Li Ruoshan, Mr. Shao Ruiqing and Mr. Xu Zhao as the members of the Audit and Risk Management Committee and Mr. Li Ruoshan was appointed as the chairman of the Audit and Risk Management Committee in 2017. Due to Mr. Xu Zhao's resignation, on March 29, 2018, Mr. Cai Hongping was appointed as the member of the Audit and Risk Management Committee. Our Audit and Risk Management Committee comprises three members, which are all independent non-executive directors, and satisfies the requirements of Rule 10A-3 of the Exchange Act and NYSE Rule 303A.06 relating to audit committees, including the requirements relating to independence of the audit committee members.

The Audit and Risk Management Committee is authorized to, among other things, examine our internal control, internal audit and risk management systems, review auditing procedures and financial reports with our auditors, evaluate the overall risk management and corporate governance of our Company and prepare relevant recommendations to our Board of Directors. Subject to the approval of the shareholders' meeting, the Audit and Risk Management Committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the Audit and Risk Management Committee. The Audit and Risk Management Committee holds at least three meetings each year. The Audit and Risk Management Committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Audit and Risk Management Committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the Audit and Risk Management Committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties. The Audit and Risk Management Committee held 12 meetings in 2018.

### **Nominations and Remuneration Committee**

Our Nominations and Remuneration Committee comprises three members: Mr. Liu Shaoyong, the Chairman, Mr. Ma Weihua and Mr. Cai Hongping, both of whom are independent non-executive directors. Since June 15, 2016, when considering and approving nomination related matters, the Nominations and Remuneration Committee will be chaired by Mr. Liu Shaoyong; when considering and approving remuneration related matters, the Nominations and Remuneration Committee will be chaired by Mr. Ma Weihua.

The Nominations and Remuneration Committee is authorized to make recommendations to our Board of Directors regarding its size and composition based on the relevant provisions of the Company Law and in the light of specific circumstances such as the characteristics of the Company's equity structure, determine standards and procedures for the nomination of Directors and senior management of the Company, examine the remuneration policies of Directors and senior management of the Company, review the performance of our Directors and senior management as well as determine their annual compensation level. The Nominations and Remuneration Committee submits to our Board of Directors or shareholders' meeting for approval compensation plans and oversee the implementation of approved compensation plans. The Nominations and Remuneration Committee may consult financial, legal or other outside professional firms in carrying out its duties. The Nominations and Remuneration Committee held four meetings in 2018.

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

## Planning and Development Committee

As of December 31, 2018, the Planning and Development Committee comprised three members: Mr. Ma Xulun, a then executive Director, Mr. Yuan Jun, an employee representative Director, and Mr. Shao Ruiqin, an independent non-executive director. Mr. Ma Xulun was the chairman of the committee. Due to the resignation of Mr. Ma Xulun on February 1, 2019, the Planning and Development Committee currently comprises Mr. Yuan Jun and Mr. Shao Ruiqin.

The Planning and Development Committee, a specialized committee under our Board of Directors, is responsible for studying, considering, and developing plans and making recommendations with regard to the long-term development plans and material investment decisions of the Company. The members of the committee also oversee the implementation of such plans. The Planning and Development Committee held nine meetings in 2018.

## Aviation Safety and Environment Committee

As of December 31, 2018, the Aviation Safety and Environment Committee comprised Mr. Ma Xulun, a then executive Director, Mr. Lin Wanli and Mr. Li Ruoshan, both of whom are independent non-executive Director. Mr. Ma Xulun served as the chairman of the committee. Due to the resignation of Mr. Ma Xulun on February 1, 2019, the Aviation Safety and Environment Committee currently comprises Mr. Lin Wanli and Mr. Li Ruoshan.

The Aviation Safety and Environment Committee, a specialized committee under the Board of Directors, is responsible for consistent implementation of relevant laws or regulations regarding national aviation safety and environmental protection, examining and overseeing the aviation safety management of the Company, studying, considering and making recommendations with regard to aviation safety duty plans and significant issues resulting from related safety duties as well as implementing such safety duty plans. In addition, the Aviation Safety and Environment Committee performs studies, and makes recommendations on significant environmental protection issues, including carbon emissions on our domestic and international aviation routes and carbon emission programs, and overseeing their implementation. The Aviation Safety and Environment Committee held two meetings in 2018.

## D. Employees

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

The table below sets forth the number of our employees as of December 31, 2016, 2017 and 2018, respectively:

|   | <b>As of December 31,</b> |               |               |
|---|---------------------------|---------------|---------------|
|   | <b>2016</b>               | <b>2017</b>   | <b>2018</b>   |
| Pilots                                    | 6,759                     | 7,332         | 7,634         |
| Flight attendants and other aircrew staff | 15,494                    | 18,916        | 19,909        |
| Maintenance personnel                     | 11,621                    | 11,847        | 12,262        |
| Sales and marketing                       | 4,739                     | 4,378         | 3,978         |
| Operation control                         | 2,180                     | 2,057         | 1,780         |
| Information technology                    | 860                       | 920           | 1,025         |
| Management                                | 4,001                     | 3,923         | 3,605         |
| Ground Services and others                | 29,679                    | 25,904        | 26,812        |
| <b>Total</b>                              | <b>75,333</b>             | <b>75,277</b> | <b>77,005</b> |



In 2018, we ensured positive results from the large-scale trainings through organizing and coordinating resources, reasonably setting up courses and optimizing training cycles. By setting up our online study platform, we integrated the online and offline training resources and enhanced the effects of training and studying. We focused on different professional trainings, concentrated on the development of talent for the key positions and set up clear development and training plans for the targeted personnel. For example, in 2018, we launched combined training programs for crews, combining courses such as dangerous goods transportation training, air defense security and explosion-proof platform construction training and air emergency rescue training with CRM (crew resource management) for the first time in the industry. The CRM combination training covered more than 20,000 of our crew members, effectively improved the coordination, emergency response and air safety risk management capability between crew members. We have also optimized the *Sail Plan for Talents Development*, a training program for new management trainees incorporating closed-door training with seminars, experiential and inspiring teaching. In addition, we promoted and improved our overseas study project, such as Rolls-Royce management improvement study project and Six Sigma Black Belt project in 2018.

See Note 7 to the consolidated financial statements for changes in our retirement benefits.

## E. Share Ownership

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

In 2012, we implemented an H shares appreciation rights scheme, under which H shares appreciation rights were granted to the Directors and senior management on November 30, 2012 at an exercise price of HK\$2.67. The H share appreciation rights granted under this scheme are valid for a period of five years from the date of grant. The lock-up period of the share appreciation rights shall be the 24 months from the date of grant, during which no share appreciation right shall be exercised. Subject to the satisfaction of performance appraisal indicators, incentive recipients may exercise their share appreciation rights in equal installments within three years after the expiration of the lock-up period.

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

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2018 by all persons who were known to us to be the beneficial owners of 5% or more of any class of our issued share capital:

| Title of Class    | Identity of Person or Group           | Amount Owned (%) | Percent of Class (%) | Percent of Total Shares (%) |
|-------------------|---------------------------------------|------------------|----------------------|-----------------------------|
| Domestic A Shares | CEA Holding <sup>(1)</sup>            | 5,530,240,000    | 56.38                | 38.23                       |
| H Shares          | CES Global <sup>(2)</sup>             | 2,626,240,000    | 56.37                | 18.15                       |
| H Shares          | HKSCC Nominees Limited <sup>(3)</sup> | 4,183,861,179    | 89.80                | 28.92                       |
| H Shares          | Delta Air Lines <sup>(4)</sup>        | 465,910,000      | 10.00                | 3.22                        |

Notes:

Based on the information available to the Directors (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as they are aware, as of December 31, 2018:

- (1) Among such A shares, 5,072,922,927 A shares were held directly by CEA Holding; and 457,317,073 A shares were held directly by CES Finance, which in turn were entirely held by CEA Holding.
- (2) Those H shares were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.
- (3) Among the 4,183,861,179 H shares held by HKSCC Nominees Limited, 2,626,240,000 shares (representing approximately 62.77 % of the Group's then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.
- (4) Those H shares were held by Delta Air Lines in the capacity of beneficial owner, and represented approximately 10.00% of the Group's then total issued H shares.

As of December 31, 2018, CEA Holding directly or indirectly held 56.38 % of our issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2018, there were 4,659,100,000 H Shares issued and outstanding. As of December 31, 2018 and April 18, 2019, there were 49 and 50 registered holders, respectively, of American depositary receipts evidencing 868,552 and 882,552 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

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

## **B. Related Party Transactions**

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

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 49 to the consolidated financial statements.

### ***Related Business Transactions***

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

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

#### **Import and Export Services (previously known as Import and Export Agency Services)**

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

On August 30, 2016, we entered into an agreement relating to the renewal of the existing Import and Export Agency Agreement with EAIEC, pursuant to which EAIEC and its subsidiaries will from time to time provide our Group with a range of import and export services including: (i) agency services for the import and export of goods, including aircraft and related raw materials, accessories, machinery and equipment, together with related insurance and financial services, required in the daily airlines operations and civil aviation business of the Group; (ii) the provision of transportation services as required by our Group in the conduct of foreign trade; and (iii) provision of aircraft on-board supplies. The Import and Export Services Renewal Agreement (previously known as Import and Export Agency Renewal Agreement) is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2018, we paid handling charges of approximately RMB165 million to EAIEC. We currently have certain balances with EAIEC, which are trade in nature, interest-free and payable within normal credit terms. See Note 49(b) to the consolidated financial statements for more details.

*China Eastern Airlines Media Co. Ltd. ( CEA Media ) (previously known as Eastern Aviation Advertising Service Co., Ltd. ( Eastern Aviation Advertising )), a 55% owned subsidiary of CEA Holding*

#### **Advertising Service Agreement**

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

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Advertising Services Agreement with CEA Media on substantially the same terms, pursuant to which CEA Media and its subsidiaries will from time to time provide our Group with multi-media advertising services to promote our Group's business and to organize promotional functions and campaigns to enhance our Group's reputation in the civil aviation industry. The Advertising Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2018, we paid to Eastern Aviation Advertising approximately RMB19 million for advertising services.

#### Media Resources Agreement

On September 27, 2013, we entered into an agreement with CEA Media, pursuant to which we and certain of our subsidiaries agreed to transfer the exclusive rights to use certain media and advertising resources to CEA Media and certain of its subsidiaries for a period of 15 years (from January 1, 2014 to December 31, 2028). CEA Media is a subsidiary of and thus an associate of CEA Holding, which in turn is a controlling shareholder of the Company. For the year ended December 31, 2018, Eastern Aviation Advertising paid approximately RMB14 million in media royalty fees.

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

### Catering Service Agreements

On August 30, 2013, we entered into an agreement relating to the renewal of the existing catering services agreement with the Eastern Air Catering Company on substantially the same terms, pursuant to which the Eastern Air Catering Company and its subsidiaries would from time to time provide the Group with in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in the daily airline operations and civil aviation business of the Group. The Eastern Air Catering Entities provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of the Group to accommodate its operation needs. The Catering Services Renewal Agreement was approved at the extraordinary general meeting of the Company held on October 29, 2013 and was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Catering Services Agreement with CEA Catering, pursuant to which CEA Catering and its subsidiaries (each an Eastern Air Catering Entity and collectively the Eastern Air Catering Entities ) will from time to time provide our Group with catering services (including the supply of meals and beverages, cutlery and tableware) and related storage and complementary services required in the day-to-day airline and ground operation of our Group. The Eastern Air Catering Entities provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of our Group to accommodate the operational needs of our Group.

For the year ended December 31, 2018, we paid approximately RMB1,317 million to the subsidiaries of CEA Catering for the supply of in-flight meals and other services.

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

On January 16, 2013, the Company entered into a supplemental agreement with Eastern Finance to further regulate the balances of our deposits and loans with Eastern Finance and its subsidiaries on a pre-condition that the agreed maximum daily balance of each of the deposits and the loans under the financial services agreement dated October 15, 2010 remained unchanged. On August 30, 2013, we entered into an agreement relating to the renewal of the existing financial services agreement with Eastern Finance and CES Finance, pursuant to which Eastern Finance and its subsidiaries (each an Eastern Air Finance Entity and collectively the Eastern Air Finance Entities ) and CES Finance and its subsidiaries (each a CES Finance Entity and collectively the CES Finance Entities ) will from time to time provide the Group with a range of financial services including: (i) deposit services by Eastern Air Finance Entities; (ii) loan and financing services by Eastern Air Finance Entities; and (iii) other financial services such as: (a) the provision of trust loans, financial guarantees, credit references by Eastern Air Finance Entities; and (b) broker services for future products (e.g. crude oil, foreign exchange and national debt) by CES Finance Entities (the scope of other financial services is not limited and different services may be provided to the Group as and when they are needed). The Financial Services Renewal Agreement was approved at the extraordinary general meeting of the Company held on October 29, 2013 and was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Financial Services Agreement with Eastern Finance and CES Finance, on substantially the same terms, pursuant to which Eastern Finance and its subsidiaries (each an Eastern Air Finance Entity and collectively the Eastern Air Finance Entities ) and CES Finance and its subsidiaries (each a CES Finance Entity and collectively the CES Finance Entities ) agreed from time to time provide our Group with a range of financial services including: (i) deposit services by the Eastern Air Finance Entities; (ii) loan and financing services by the Eastern Air Finance Entities; and (iii) other financial services, such as: (a) the provision of services such as trust loans, financial guarantees and credit references by the Eastern Air

Finance Entities; and (b) the provision of services such as broker services for future products (e.g. crude oil, foreign exchange and national debt) by the CES Finance Entities (the scope of other financial services is not limited and different services may be provided to our Group as and when they are needed). The Financial Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

As of December 31, 2018, we had deposits amounting to RMB282 million placed with Eastern Finance, which paid interest to us at 0.35% per annum.

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

On August 30, 2013, we entered into an agreement relating to the renewal of the existing maintenance and repair services agreement with CEA Development on substantially the same terms, pursuant to which CEA Development and its subsidiaries (each a CEA Development Entity and collectively the CEA Development Entities ) would from time to time provide certain services, including: (i) maintenance and repair services to our airplanes and automobiles that are used in ground services and daily operations; (ii) comprehensive services in relation to maintenance, repair and overhaul of aircraft, aviation equipment and ancillaries; (iii) various special vehicles and equipment for airline use, such as air stairs, freight cars, luggage trailers, garbage truck, aircraft portable water vehicle, aircraft sewage disposal vehicle, food cars, freight containers, freight board; (iv) aircraft on-board supplies; and (v) warehousing management (the Maintenance and Repair Services Renewal Agreement ). Maintenance and Repair Services Renewal Agreement was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into the Complementary Services Renewal Agreement (previously known as the Existing Maintenance and Repair Services Agreement) with CEA Development, pursuant to which CEA Development and its subsidiaries (each a CEA Development Entity and collectively the CEA Development Entities ) will from time to time provide our Group with a range of services including: (i) supply of equipment and materials and provision of maintenance and repair services to our automobiles and equipment; (ii) provision of property management services; (iii) provision of hotel accommodation services; and (iv) other complementary aviation services. The Complementary Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2018, production and maintenance services fees paid to CEA Development Entity amounted to approximately RMB313 million.

*Eastern Logistics, an indirectly owned subsidiary of CEA Holding*

#### Disposal of the entire equity interest in Eastern Air Logistics

On November 29, 2016, we entered into a disposal agreement with Eastern Airlines Industry Investment, pursuant to which, we have conditionally agreed to sell, and Eastern Airlines Industry Investment has conditionally agreed to purchase, our entire equity interest in Eastern Logistics at a consideration of RMB2,432,544,211.50, determined with reference to the relevant valuation report. Upon completion of the disposal on February 8, 2017, Eastern Logistics ceased to be our subsidiary.

#### Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics

As Eastern Logistics ceased to be our subsidiary, each member of the Eastern Logistics Group became a connected person of us. On November 29, 2016, we entered into the Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics. We will provide the following services to the Eastern Logistics Group, required for the daily operation of its freight logistics business: (i) aircraft maintenance and its ancillary support services; (ii) information technology support services; (iii) cleaning services; (iv) training services; and (v) other daily support services. The Eastern Logistics Group will provide us the following services required for our daily business operation: (i) apron transfer services, cargo terminal operation services and security inspection services; and (ii) other daily support services. The Freight Logistics Daily Connected Transactions Framework Agreement will be effective for a term of three years, commencing from the date on which the entire equity interest in Eastern Logistics was transferred from us to Eastern Airlines Industry Investment pursuant to the disposal agreement, and ending on December 31, 2019.

For the year ended December 31, 2018, the amount payable by Eastern Logistics to us for the freight logistics support services amounted to approximately RMB126 million and the amount payable by us to Eastern Logistics for the cargo



terminal business support services amounted to approximately RMB348 million.

Bellyhold Space Management Agreement

On January 1, 2017, to avoid the competition between the bellyhold space business operated by us and the all-cargo aircraft freight business operated by China Cargo Airlines, the subsidiary of Eastern Logistics, after the completion of equity transfer in Eastern Logistics, we entered into the Bellyhold Space Management Agreement with China Cargo Airlines to entrust China Cargo Airlines for the operation of the bellyhold space business for a term of three years, which commenced on January 1, 2017. Pursuant to the Bellyhold Space Management Agreement, in respect of the entrusted management of bellyhold space business, we will pay management fee to China Cargo Airlines according to industry practice, including handling charges for the entrusted management and incentives for achieving specified sales targets. The Bellyhold Space Management Agreement is effective for a term of three years commencing January 1, 2017 until December 31, 2019.

For the year ended December 31, 2018, the actual amount incurred under the Bellyhold Space Management Agreement was approximately RMB32 million. The Bellyhold Space Management Agreement has been superseded by the contractual operation agreement dated March 1, 2018 entered into between the Company and China Cargo Airlines from March 31, 2018.

#### Contractual Operation Agreement and Operation Cost Agreement

On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines. The term of the contractual operation agreement is from April 1, 2018 to December 31, 2032. The term of the operation cost agreement is from the effective date to December 31, 2032.

For the year ended December 31, 2018, the actual amount paid by the China Cargo Airlines amounted to RMB2,795 million and the actual amount paid by us amounted to RMB246 million under the contractual operation agreement and operation cost agreement.

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

#### Land Use Rights Transfer Agreement and the Buildings Compensation Agreement

On September 29, 2017, we entered into the land use rights transfer agreement and the buildings compensation agreement with Eastern Investment in Shanghai. Pursuant to the land use rights transfer agreement and the buildings compensation agreement, (i) we agreed to transfer to Eastern Investment the land use rights in respect of the target land together with the buildings thereon at the eastern district of Terminal One of the Shanghai Hongqiao International Airport; and (ii) Eastern Investment agreed to compensate us for the transfer of the buildings, at total consideration of approximately RMB808 million.

#### ***Property Leases***

On August 30, 2013, we entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding on substantially the same terms. Pursuant to the Property Leasing Renewal Agreement, we leased the following properties from CEA Holding and its subsidiaries, for use in our daily airline and other business operations:

- (i) a maximum of 36 land properties owned by CEA Northwest, covering an aggregate site area of approximately 713,632 square meters together with a total of 172 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 240,601 square meters;
- (ii) a maximum of three land properties owned by CEA Yunnan, covering an aggregate site area of approximately 43,258 square meters together with a total of 24 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 77,401 square meters;
- (iii)

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

- (iv) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 63,552 square meters located in Taiyuan;
- (v) a total of 7 building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 13,195 square meters located in Shanghai;
- (vi) a total of 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and
- (vii) other property facilities owned by CEA Holding as may be leased to us from time to time, due to our business needs

In addition to and on the terms and conditions to be further agreed, we will lease some of the properties legally owned or leased by us to subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding. The Property Leasing Renewal Agreement was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding. Pursuant to the property leasing renewal agreement, we will lease from CEA Holding and its subsidiaries the following properties, for use in our daily airlines and other business operations:

- (a) altogether 17 land properties owned by CEA Holding in Lanzhou, Gansu, covering an aggregate site area of approximately 234,989 square meters together with a total of 81 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 54,290 square meters;
- (b) altogether three land properties owned by CEA Holding in Kunming, Yunnan, covering an aggregate site area of 44,835 square meters together with a total of 24 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 67,992 square meters;
- (c) one building property, construction, structures and other ancillary facilities owned by CEA Holding in Shijiazhuang, occupying an aggregate floor area of approximately 8,853 square meters;
- (d) a total of 67 building properties, construction, structures and other ancillary facilities owned by CEA Holding in Taiyuan, occupying an aggregate floor area of approximately 45,068 square meters;
- (e) a total of 7 building properties, construction, structures and other ancillary facilities owned by CEA Holding in Shanghai, occupying an aggregate floor area of approximately 13,195 square meters;
- (f) altogether 16 land properties owned by CEA Northwest, covering an aggregate site area of approximately 393,929 square meters together with a total of 115 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 88,440 square meters;
- (g) a total of altogether 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and
- (h) other land and property facilities owned by CEA Holding as may be leased to us from time to time due to our business and operational needs.

In addition to the above and on terms and conditions to be further agreed, we leased some of the properties legally owned or leased by us to subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding. The property leasing renewal agreement was effective for a term of three years from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2018, we paid a rental fee of RMB33 million under this property leasing renewal agreement.

***Amendments to the Non-Competition Undertaking with CEA Holding***

On December 22, 2017, we and CEA Holding entered into the supplemental agreement II to the reorganization and division agreement to amend the non-competition undertaking of CEA Holding as set out in article 3 of the supplemental agreement I to the reorganization and division agreement entered into by both parties in 1996.

Pursuant to article 3 of the supplemental agreement I, CEA Holding has undertaken to us that, so long as the we are listed in the PRC, Hong Kong or New York, if CEA Holding holds more than 35% of the issued shares of us or is deemed to be our controlling shareholder pursuant to the listing rules of relevant stock exchange(s) or relevant laws and regulations, CEA Holding shall not, in any place within or outside the PRC or in any way (including but not limited to carrying on through sole proprietorship, forming partnerships or joint ventures with others and holding shares or interests in other companies or enterprises, except that the shares held by CEA Holdings do not exceed 10% of our shares or enterprise as listed on a stock exchange) conduct any business or activities that is or may be in direct or indirect competition with our business.

Pursuant to the amendments, CEA Holding undertakes to us that so long as we are listed in the PRC, Hong Kong or New York, if CEA Holding holds more than 35% of the issued shares of us or is deemed to be our controlling shareholder pursuant to the listing rules of relevant stock exchange(s) or relevant laws and regulations, CEA Holding shall not, in any place within or outside the PRC or in any way, conduct any business or activities that is or may be in direct or indirect competition with our business, with an exception that CEA Holding will be allowed to conduct equity investment in any companies or enterprises that is or may be in direct or indirect competition with the principal business of the Company (the Competing Enterprise(s) ), provided that CEA Holding and its controlled subsidiary(ies) (other than us) will not contravene any applicable laws and regulations as well as regulatory rules, control or be deemed to control such Competing Enterprises by the listing rules of relevant stock exchange(s) or relevant laws and regulations after the investment, and subject to certain conditions.

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

As of December 31, 2016, 2017 and 2018, bonds issued by us in an aggregate amount of RMB7.8 billion were guaranteed by CEA Holding. See Note 49(d) to the consolidated financial statements.

### ***Guarantee by the Company***

#### **To Certain Subsidiaries**

On January 17, 2017, the Board of Directors considered and approved that we shall provide, within the period from the effective date of the Board resolution to December 31, 2017, guarantee in the total amount of up to RMB1,000 million to China United Airlines, Shanghai Eastern Flight Training Co., Limited, Eastern Business Airlines Service Co., Limited, Eastern Technology, and their respective wholly-owned subsidiaries. The period of guarantee shall be the same as the period of subject obligations of the respective guaranteed parties and shall not exceed 10 years.

On December 22, 2017, the Board of Directors considered and approved that we shall provide, within the period from the effective date of the Board resolution to December 31, 2018, guarantee in the total amount of up to RMB1,000 million to China United Airlines, Shanghai Eastern Flight Training Co., Limited, Eastern Business Airlines Service Co., Limited, Eastern Technology, and their respective wholly-owned subsidiaries, and that Shanghai Airlines Tours International (Group) Co., Limited, a wholly-owned subsidiary of us, shall provide guarantee in the total amount of up to RMB10 million to Shanghai Dongmei Air Travel Co., Ltd. The period of guarantee shall be the same as the period of subject obligations of the respective guaranteed parties and shall not exceed 10 years.

On January 18, 2019, the Board of Directors considered and approved that we shall provide, within the period from the effective date of the resolution to December 31, 2019, guarantee in the total amount of up to RMB1 billion to China United Airlines, Shanghai Eastern Flight Training Co., Ltd., Eastern Business Airlines Service Co., Ltd., Eastern Technology, and their respective wholly-owned subsidiaries. Shanghai Airlines Tours International (Group) Co., Ltd. (our wholly-owned subsidiary) shall provide guarantee in the total amount of RMB10 million to Shanghai Dongmei Air Travel Co., Ltd., the period of which shall be the same as the period of the subject obligations of the respective guaranteed parties and shall not exceed 10 years.

#### **To not more than 67 Special Purpose Vehicles**

On January 19, 2018, with an aim to carry out the work of changing aircraft leasing from overseas operating lease to domestic operating lease for not more than 67 aircraft, the Board of Directors agreed us to invest and establish not more than 67 special purpose vehicles in Dongjiang Free Trade Port Zone of Tianjin with the aggregate guarantee amount not exceeding RMB9.8 billion. The term of each guarantee will not exceed 15 years commencing from the actual date when we provide guarantee to each special purpose vehicle. The guarantee was considered and approved at the general meeting of the Company held on February 8, 2018.

### ***Agreements in relation to Aircraft Finance Lease and Aircraft Operating Lease with CES Leasing***

#### **Master Lease Agreement**

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

2016 Aircraft Finance Lease Framework Agreement

On April 28, 2016, we entered into the 2016 Aircraft Finance Lease Framework Agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to the leased aircraft, as and when we consider desirable, in our interests and the interests of the Shareholders as a whole in accordance with the terms and conditions of the 2016 Aircraft Finance Lease Framework Agreement and the relevant implementation agreements contemplated thereunder. The 2016 Aircraft Finance Lease Framework Agreement was effective for a term of one year commencing January 1, 2016.

2017 2019 Aircraft Finance Lease Framework Agreement

On April 28, 2016, we entered into the 2017 2019 Aircraft Finance Lease Framework Agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to the Leased Aircraft, as and when we consider desirable, in our interests and the interests of the Shareholders as a whole in accordance with the terms and conditions of the 2017 2019 Aircraft Finance Lease Framework Agreement and the relevant implementation agreements contemplated thereunder. The 2017 2019 Aircraft Finance Lease Framework Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

### Novation Agreement and Aircraft Operating Lease Agreement

On July 9, 2015, we (as the purchaser) entered into the purchase agreement with Boeing Company (as the seller) regarding the acquisition of fifty brand new Boeing B737 series aircraft (the Purchase Agreement ).

On August 10, 2017, we entered into a novation agreement with CES Leasing, pursuant to which, (i) we agreed to novate, from the date of the novation agreement, our rights (including the purchase right) and obligations in and under the Purchase Agreement in respect of the five Boeing Aircraft, which are expected to be delivered by the Boeing Company to us in 2017 pursuant to the Purchase Agreement (the Five Boeing Aircraft ) at nil consideration; and (ii) CES Leasing agreed to, from the date of the novation agreement, assume all of the rights (including the purchaser right) and obligations in and under the Purchase Agreement in respect of the Five Boeing Aircraft at nil consideration. The parties entered into the novation agreement at nil consideration.

On August 10, 2017, we entered into the aircraft operating lease agreement with CES Leasing, pursuant to which, CES Leasing agreed to provide operating leasing to us in relation to the Five Boeing Aircraft. The aircraft operating lease agreement is effective for a term of 144 months for each aircraft from the date on which each of the Five Boeing Aircraft is delivered. Delivery date would fall on the period between August 2017 and December 2017.

### 2018-2019 Aircraft and Engines Operating Lease Framework Agreement

On December 22, 2017, we entered into the 2018-2019 aircraft and engines operating lease framework agreement with CES Leasing, pursuant to which CES Leasing agreed to provide operating leasing to us in relation to the aircraft and aircraft engines. Upon successful bidding of the tender of the aircraft and/or aircraft engines during the period between January 1, 2018 and December 31, 2019 by CES Leasing, the term of each of the lease agreement under the 2018-2019 aircraft and engines operating lease framework agreement shall be not more than 144 months for each leasing of the aircraft and aircraft engines by CES Leasing to us.

For the year ended December 31, 2018, the actual amount incurred for aircraft finance lease services was approximately RMB6,142 million and the actual amount incurred for aircraft operating lease services was approximately RMB94 million.

### ***Transactions with Air France-KLM***

On July 27, 2017, a wholly-owned subsidiary of CEA Holding and Delta entered into a conditional subscription agreement with Air France-KLM, respectively, to acquire 10% newly issued shares in the share capital of Air France-KLM after the completion of issuance of additional shares. We entered into a marketing agreement with Air France-KLM to further strengthen the business partnership on the basis of good business relationship between the two parties.

On October 3, 2017, the trading of the fixed issuance of additional 10% shares to CEA Holding by Air France-KLM was completed in the Euronext. CEA Holding appointed Tang Bing, our Director and vice president as the director of Air France-KLM. According to the relevant requirements of the Shanghai Stock Exchange, the daily businesses such as joint operation and service security between us and Air France-KLM and its controlled subsidiaries constituted a related party transaction of the Company under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

On December 22, 2017, the Board of Directors considered and approved the relevant resolution regarding the 2017-2019 daily related party transactions between Air France-KLM and us, pursuant to which, we will provide aircraft aviation transportation cooperation and support services to Air France-KLM and Air France-KLM will provide aircraft aviation transportation cooperation and support services to us. The Board of Directors also approved



the 2017-2019 annual caps for the Air France-KLM aircraft aviation transportation cooperation and support services.

On August 10, 2018, a wholly-owned subsidiary of us entered into the aeronautical materials and components maintenance and spare parts supply service agreement and components lease service agreement with the wholly-owned subsidiary of Air France-KLM, KLM Royal Dutch Airlines, pursuant to which, KLM Royal Dutch Airlines will lease and maintain aeronautical material and spare parts for our 15 B787 airplanes to us for 15 years. The Board of Directors considered and approved the relevant transactions.

On October 30, 2018, a wholly-owned subsidiary of us entered into the aeronautical materials and components maintenance and spare parts supply service agreement and components lease service agreement with the wholly-owned subsidiary of Air France-KLM, Societe Air France, pursuant to which, Societe Air France will lease and maintain aeronautical material and spare parts for our 20 A350 airplanes to us for 15 years. The Board of Directors considered and approved the relevant transactions.

For the year ended December 31, 2018, the actual amount of the Air France-KLM aircraft aviation transportation cooperation and support services received by us was approximately RMB728 million and the actual amount of the Air France-KLM aircraft aviation transportation cooperation and support services paid by us was approximately RMB425 million. The actual amount for the aeronautical materials, components and spare parts supply, leasing and maintenance services paid by us to Air France-KLM was approximately RMB2 million.

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

Not applicable.

## **Item 8. Financial Information**

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

#### ***Financial Statements***

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

#### ***Legal Proceedings***

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations.

#### ***Dividends and Dividend Policy***

For the years ended December 31, 2010, 2011, 2012 and 2013, our Board of Directors did not recommend any dividend payouts due to our total accumulated losses of RMB12,855 million, RMB8,039 million, RMB4,967 million and RMB2,595 million, respectively. Under PRC law, we cannot convert funds from common reserves to increase our share capital during this period. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2014, the retained earnings of the parent company were RMB21 million as of December 31, 2014. Based on the audited financial statements of the Company under IFRSs as of and for the year 2014, the accumulated loss of the parent company was RMB385 million. Pursuant to the PRC Company Law and its Articles of Association, the Company must recover losses incurred in previous years with its profit for the year before any dividend distributions are made to its shareholders. The basis of dividend distribution of the Company is the distributable profit of the parent company, which is subject to the principle of adopting the lesser of the profit after tax under the PRC accounting standards and IFRSs. As of December 31, 2014, the Company has been recording accumulated losses under IFRSs. The Board of Directors recommended that no dividend be distributed for the year 2014 and share capital of the Company not be increased through capitalization of its capital reserve. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2015, the retained profits of the parent company were RMB1,680 million as of December 31, 2015. Based on the audited financial statements of the Company under IFRSs as of and for the year 2015, the retained profits of the parent company were RMB1,164 million.

In accordance with Rule 17 of Measures on the Administration of Securities Issuance and Underwriting by the CSRC, if listed companies with a plan for issuance of securities have any profit distribution proposal or proposal for capital increase with capital surplus, that has not yet been submitted to general meeting for voting or has been approved by shareholders' general meeting but not yet implemented, the issuance of securities may only proceed after such proposals have been implemented. Given that the Company's application for non-public issuance of A shares was

approved by the CSRC in January 2016 and will expire on July 5, 2016, if the Company had implemented profit distribution in 2015, approval for the profit distribution proposal would have been needed at the 2015 general meeting and the non-public issuance of A shares could only be implemented after the implementation of the profit distribution proposal. This would have narrowed the time frame for the non-public issuance of A shares or would even have made it impossible to implement, in which case the implementation of the Company's non-public issuance project and long-term development would have been severely hampered.

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

On October 27, 2016, the interim profit distribution plan was approved at the extraordinary general meeting of the Company. The 2016 interim distribution was approximately RMB737.8 million in cash. Based on our total share capital of 14,467,585,682 shares, the cash distribution per share was RMB0.051 (before tax) in cash.

On March 30, 2017, the Board of Directors considered and approved the 2016 annual profit distribution proposal. It was recommended by the Board of Directors that the 2016 annual distribution be approximately RMB708.9 million in cash. Based on the total share capital of 14,467,585,682 shares of the Company, the cash distribution per share was RMB0.049 (before tax) in cash.

On September 25, 2017, the Board of Directors has not recommended any dividend for the six months ended June 30 2017.

On March 29, 2018, the Board of Directors considered and approved the 2017 annual profit distribution proposal. It was recommended by the Board of Directors that the 2017 annual distribution be approximately RMB740.3 million in cash. Based on the total share capital of 14,467,585,682 shares of the Company, the cash distribution per share would be RMB0.051 (before tax) in cash which will be distributed to holders of A shares of the Company in RMB and to holders of H shares of the Company in HKD.

On March 29, 2019, the Board of Directors considered and approved the 2018 annual profit distribution proposal. According to the relevant requirements of the Measures for the Administration of Securities Issuance and Underwriting of the CSRC, for issue securities by a listed company, in the event that any profit distribution proposal or proposal of conversion of the reserve into the share capital has not been submitted to its general meeting for voting or has been approved by the general meeting but has not yet been implemented, the issuance of securities shall proceed after such proposal has been implemented. As the proposed non-public issuance of our A shares is now under review by the CSRC and the project is strategically important to us, in order to guarantee the smooth progress of the proposed nonpublic issuance project, we intended not to proceed with cash dividend distribution or conversion of capital reserve into share capital for the year 2018, after comprehensively taking into account of our long-term development and the interests of all of our shareholders. The retained profits will be used to supplement our daily working capital, to fulfill our main business development needs.

We have, for the years ended December 31, 2016 and 2017, consecutively implemented profit distribution proposals to return to our investors. The accumulated profit distribution for the years ended December 31, 2016, 2017 and 2018 amounted to RMB1,446.8 million, which has exceeded the requirement provided in our Articles of Association that the accumulated profit distribution made in cash by the Company in the latest three years shall not be less than 30% of the average annual distributable profit attributable to the owners of the parent company in the consolidated statements in the latest three years .

The independent non-executive Directors are of the view that the aforesaid 2018 annual profit distribution proposal of the Board of Directors has comprehensively considered the significance of our proposed non-public offering of shares, taking into account of our long-term development and the interests of all of our shareholders. The Board of Directors has performed the voting procedures for the matter in accordance with the requirements of relevant laws and regulations and considered that there is no circumstance detrimental to the interests of our shareholders, especially to our minority shareholders. Meanwhile, it would help us to ensure smooth implementation of its major capital projects, facilitate our healthy and sustainable development.

The aforesaid profit distribution proposal of the Group is subject to consideration and approval by the shareholders at the 2018 general meeting of our Company.

Our Board of Directors declares dividends, if any, in Renminbi, with respect to H Shares on a per share basis and pays such dividends in HK dollars. Any final dividend for a fiscal year is subject to shareholders' approval. The Bank of

New York Mellon (the BNYM ), as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less conversion expenses. Under PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of the H Shares share proportionately on a per share basis in all dividends and other distributions declared by our Board of Directors, if any, based on the foreign exchange conversion rate published by PBOC, on the date of the distribution of the cash dividend.

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

our financial results;

capital requirements;

contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;

our shareholders interests;

the effect on our creditworthiness;

general business and economic conditions; and

other factors our Board of Directors may deem relevant.

Pursuant to PRC laws and regulations, dividends may only be distributed after allowance has been made for:

(i) recovery of losses, if any and (ii) allocations to the statutory surplus reserve. The allocation to the statutory surplus reserve is 10% of our net profit determined in accordance with PRC Generally Accepted Accounting Principles. Our distributable profits for the current fiscal year will be equal to our net profits determined in accordance with IFRSs, less allocations to the statutory surplus reserve.

## **B. Significant Changes**

### **Significant Post Financial Statements Events**

Not applicable.

## **Item 9. The Offer and Listing**

### **A. Offer and Listing Details**

The principal trading market for our H Shares is the Hong Kong Stock Exchange (Code: 00670). The ADSs, each representing 50 H Shares, have been issued by BNYM as Depositary and are listed for trading on the New York Stock Exchange under the symbol `CEA`. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange (Code: 600115) since November 5, 1997.

As of December 31, 2018, there were 4,659,100,000 H Shares issued and outstanding. As of December 31, 2018 and April 18, 2019, there were 49 and 50 registered holders, respectively, of American depositary receipts evidencing 868,552 and 882,552 ADSs, respectively. Since nominees hold certain of the ADSs, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. A total of 9,808,485,682 domestic ordinary shares were also outstanding as of December 31, 2018.

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

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

### **D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

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

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on August 30, 2018, is attached as an exhibit to this Annual Report on Form 20-F (which is incorporated by reference).

### *Selected Summary of the Articles of Association*

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

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

### *Board of Directors*

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

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

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

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

Our Articles provide that our Company shall not in any manner pay taxes for or on behalf of a director or make directly or indirectly a loan to or provide any guarantee in connection with the making of a loan to a director of our Company or of our Company's holding company or any of their respective associates. However, the following



transactions are not subject to such prohibition: (i) the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company; (ii) the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, administrative officers to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; (iii) our Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

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

*Description of the Shares*

As of December 31, 2016, our share capital structure was as follows: 14,467,585,682 ordinary shares of which (a) 1,327,406,822 A shares subject to trading moratorium, which represented 9.18% of our share capital, were held by Shanghai Licheng Information Technology Consulting Co., Limited, China National Aviation Fuel Holding Company, China COSCO Shipping Corporation Limited and Caitong Fund Management Co., Limited, respectively; (b) 8,481,078,860 A shares without trading moratorium, which represented 58.62% of our share capital, were issued to investors in China; and (c) 4,659,100,000 H shares without trading moratorium, which represented 32.20% of our share capital.

Our ordinary shareholders shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held;
- (ii) the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote thereat;
- (iii) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (iv) the right to transfer shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  - (1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge;
- (vi) all parts of the register of shareholders;
- (vii) personal particulars of each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:
  - (1) present name and alias and any former name or alias;
  - (2) principal address (residence);

- (3) nationality;
- (4) primary and all other part-time occupations and duties;
- (5) identification documents and their relevant numbers;
  
- (viii) state of the Company's share capital;
  
- (ix) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
  
- (x) minutes of Shareholders' general meetings and the accountant's report,
  
- (xi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of shares held; or
  
- (xii) other rights conferred by laws, administrative regulations and these Articles of Association.

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

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

#### *Shareholders Meetings*

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

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

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

#### *Shareholders Rights*

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

#### *Sources of Shareholders Rights*

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

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

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

*Significant Differences in the H Shares and A Shares*

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

*Restrictions on Transferability and the Share Register*

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

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

- (1) a fee (for each instrument of transfer) of HK\$2.50 or any higher fee as agreed by the Stock Exchange has been paid to us for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4) the relevant share certificate and upon the reasonable request of the Board of Directors any evidence in relation to the right of the transferor to transfer the shares have been submitted;
- (5) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four (4); or
- (6) we do not have any lien on the relevant shares.

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

*Merger and Acquisitions*

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

*Repurchase of Shares*

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

- (i) cancellation of shares for the reduction of capital;
- (ii) merging with another company that holds shares in our Company; or
- (iii) other circumstances permitted by relevant laws and administrative regulations.

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

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

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

*Interested Shareholders*

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

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

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of that class;

- (ii) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;
- (vii) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (xii) to vary or abrogate the provisions of this Chapter.

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

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

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 30, a controlling shareholder within the meaning of Article 53;



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

*Ownership Threshold*

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

*Changes in Capital*

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

*Changes in Registered Capital*

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

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

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

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

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

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

The CSRC has enacted regulations in recent years that affect the corporate governance of PRC listed companies and Company Law has also been amended in various areas. As such, the Board of Directors proposed to amend certain provisions in our Articles of Association in accordance with the rules and regulations applicable to our Company. Such amendments relate to the general provisions of the Articles of Association, reduction of capital and repurchase of shares, shareholders and register of shareholders, shareholders' general meeting, board of directors, supervisory committee, financial and accounting systems and profit distribution, merger and division and dissolution and liquidation of our Company. All such amendments were approved at our Annual General Meeting that took place on June 13, 2010.

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

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

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

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

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

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

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

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

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

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

- (1) The Company records a profit for the year, and the audit institution issues an unqualified audited report on the Company's financial statements for that particular year;
- (2) common reserve fund and discretionary common reserve fund) realized by the Company for the year is positive in value;

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

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

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

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

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

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

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

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

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

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

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

According to the relevant requirements of CSRC and the Shanghai Stock Exchange, our Board of Directors approved at the 2014 second regular meeting that amendments be made to corresponding terms in the articles of association of our Company in connection with the priority of cash dividends to share dividends in profit distributions and intervals for cash dividend distributions. Such amendments were submitted to the 2013 annual general meeting of our Company for approval.

The amendments to the Articles of Association are as follows:

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

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

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

Article 157(F): Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall generally distribute profit on an annual basis. The board of directors of the Company may also propose interim profit distribution based on the profitability and capital position of the Company. Subject to fulfillment of the cash distribution conditions under the articles of association of the Company, the Company shall implement annual cash distribution once a year in principle.

On June 26, 2014, our shareholders approved the above mentioned amendments.

On August 28, 2015, the Resolution on Amendments to Parts of the Terms of the Articles of Association was considered and approved at the seventeenth ordinary meeting of the seventh session of the Board of the Company. As authorized by the general meeting of the Company, the Board agreed to make amendments to corresponding terms in the Articles of Association in connection with the changes made to the share capital of the Company following the completion of the issue of H Shares of the Company to Delta Air Lines.

Article 20: As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 13,140,178,860 shares.

Article 21: The Company has issued a total of 13,140,178,860 ordinary shares, comprising a total of 8,481,078,860 A shares, representing 64.54% of the total share capital of the Company, a total of 4,659,100,000 H shares, representing 35.46% of the total share capital of the Company.

Article 24: The registered capital of the Company is RMB13,140,178,860.

On June 16, 2016, our shareholders approved the amendments to the Articles of Association in relation to profit distribution.

The amendments to the Articles of Association are as follows:

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

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

- (1) The Company records a profit for the year, and the audit institution issues an unqualified audited report on the Company's financial statements for that particular year;
- (2) The distributable profit (i.e. the after-tax profit of the Company after making up for losses, allocation to the statutory common reserve fund and discretionary common reserve fund) realized by the Company for the year is positive in value;
- (3) The Company has sufficient cash flow, and distribution of cash dividends will not affect the Company's normal operation and sustainable development.

Provided that the Company is in good operating condition and has sufficient cash flow to meet the needs for its normal operation and sustainable development, the Company will proactively distribute cash dividends in return to its shareholders, and the accumulated profit distribution made in cash by the Company in the latest three years shall not

be less than 30% of the average annual distributable profit attributable to the owners of the parent company in the consolidated statements in the latest three years. In the event that the said payout ratio of cash dividends cannot be met due to special reasons, the board of directors may adjust the payout ratio of dividends according to actual circumstances and state the reasons therefor.

On July 4, 2016, the Resolution on Amendments to the Articles of Association was considered and approved at the second ordinary meeting of the eighth session of the Board of Directors, to in order to reflect the changes to the registered capital of the Company following the closing of the Share Issue.

The amendments to the Articles of Association are as follows:

Article 20: As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 14,467,585,682 shares.

Article 21: The Company has issued a total of 14,467,585,682 ordinary shares, comprising a total of 9,808,485,682 A shares, representing 67.80% of the total share capital of the Company, a total of 4,659,100,000 H shares, representing 32.20% of the total share capital of the Company.

Article 24: The registered capital of the Company is RMB14,467,585,682.

On June 28, 2017, our shareholders approved further amendments to the Articles of Association to reflect the change of business license and voting on shareholders' general meeting:

Article 1: The Company is a joint stock limited company established in accordance with the Company Law of the People's Republic of China (the Company Law), State Council's Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share (the Special Regulations) and other relevant laws and regulations of the State.

The Company was established by way of promotion with the approval under the document 'Ti Gai Sheng' [1994] No.140 of the People's Republic of China's State Commission for Restructuring the Economic System. It is registered with and has obtained a business license from China's State Administration for Industry and Commerce on April 14, 1995. On February 8, 2017, the Company completed the 'Combination of Three Licenses into One' procedures for its business license, organization code certificate and tax registration certificate. The unified social credit code of the business license of the Company after the integration is 913100007416029816.

The promoter of the Company is: China Eastern Air Holding Company.

Article 72: Each matter up for consideration at a Shareholders' general meeting shall be voted upon at such Shareholders' general meeting. A shareholder (including proxy), when voting at a Shareholders' general meeting, may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote.

For material issues to be decided in general meetings of the Company that would affect the interests of its small and medium sized investors, the votes by the small and medium sized investors shall be counted separately. The result of such separate vote counting shall be disclosed publicly in a timely manner.

The Board of the Company, Independent Directors and those Shareholders who have met the relevant requirements may openly collect voting rights from the Company's shareholders. While collecting votes of the Shareholders, sufficient disclosure of information such as the specific voting preference shall be made to the Shareholders from whom voting rights are being collected. No consideration or other form of de facto consideration shall be involved in the collection of voting rights from the Shareholders. The Company shall not impose any limitation related to minimum shareholdings on the collection of voting rights.

On December 22, 2017, our shareholders approved further amendments to the Articles of Association to reflect the Party organization of the Company:

Article 12: In accordance with the Constitution of the Party, the Company shall establish Party organizations. The Party Committee at different levels of the Company shall perform functions in accordance with provisions of the Constitution of the Party. The Company shall set up the working organs of the Party, and maintain an adequate level of staffing to handle Party affairs as well as sufficient funding necessary for the activities of the Party organizations.

Article 97: The board of directors is responsible to the Shareholders' general meeting and exercises the following powers:

- (1) to be responsible for the convening of the Shareholders' general meeting and to report on its work to the Shareholders' general meeting;



- (2) to implement the resolutions of the Shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution plan and plan for making up losses;
- (6) to formulate proposals for increases or reductions in the Company's registered capital and the issue of debentures of the Company;
- (7) to draw up plans for the merger, division or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management structure;
- (9) to appoint or dismiss the Company's general manager, and pursuant to the general manager's nominations to appoint or dismiss the deputy general manager and the financial controller of the Company and decide on their remuneration;
- (10) to establish the Company's basic management system;

(11) to formulate proposals for any amendments of the Company's articles of association;

(12) to exercise any other powers conferred by the Shareholders' general meetings.

Except the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (11) of this Article which shall be passed by more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by more than one half of all the directors.

Prior to making decisions on material issues of the Company, the board of directors shall first seek advice from the Party Committee of the Company in advance.

Article 143: The Company shall establish the Party Committee. The Party Committee shall be comprised of one secretary and several other members. A deputy secretary of the Party Committee shall be appointed to take charge of the Party building work. Eligible members of the Party Committee are entitled to be admitted to the board of directors of the Company, the supervisory committee, and the management through legal procedures, and eligible Party members from the board of directors, the supervisory committee, and the management are entitled to be admitted to the Party Committee in accordance with relevant rules and procedures. Meanwhile, a discipline inspection committee shall be established in accordance with relevant regulations.

Article 144: The Party Committee of the Company shall perform its duties as required by the internal laws and regulations of the Party such as the Constitution of the Party:

- (1) to ensure and supervise the Company's implementation of guidelines and policies of the Party and the State, implement major strategic decisions of the Central Committee of the Party and the State Council, as well as the relevant material work arrangement of the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council and the superior Party organizations;
- (2) to adhere to the principle of the Party exercising leadership over cadres, the selection of management with the board of directors of the Company, and the exercise of power as regards the right of cadres appointment by the management in accordance with laws. The Party Committee shall consider and propose opinions and suggestions on the candidates nominated by the board of directors or the general manager, or recommend nominees to the board of directors or the general manager. It shall review the proposed candidates together with the board of directors and propose opinions and suggestions thereon;
- (3) to study and discuss the material matters regarding the Company's reform and stable development as well as major issues relating to the Company's operation, management and staff's benefits, and propose opinions and suggestions thereon;
- (4) to assume main responsibility for enforcing the strict discipline of the Party. Take lead in the Company's ideological and political work, the united front work, building of spiritual and corporate culture, as well as the labor union and groups such as the Communist Youth League. It shall play a leading role in the construction of the Party's working style to uphold anti-corruption and integrity and support the discipline inspection committee in fulfilling its supervisory responsibility.

On February 8, 2018, our shareholders approved further amendments to the Articles of Association:

Article 57: The Shareholders' general meeting shall have the following functions and powers:

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors (excluding employee representative directors) and decide on matters relating to the remuneration of directors;
- (3) to elect and replace the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- (4) to examine and approve reports of the board of directors;
- (5) to examine and approve reports of the supervisory committee;
- (6) to examine and approve the Company's proposed annual preliminary and final financial budgets;
- (7) to examine and approve the Company's profit distribution plans and plans for making up losses;
- (8) to decide on increases or reductions in the Company registered capital;
- (9) to decide on matters such as merger, division, change in company form, dissolution and liquidation of the Company;

- (10) to decide on the issue of debentures by the Company;
- (11) to decide on the appointment, dismissal and disengagement of the accountants of the Company;
- (12) to amend these articles of association;
- (13) to consider motions raised by shareholders who represent 3 per cent or more of the total shares of the Company carrying the right to vote;
- (14) to decide on other matters which require resolutions of the shareholders in general meeting according to relevant laws, administrative regulations and provisions of these articles of association;
- (15) to decide on matters which the board of directors may be delegated or authorized to deal with by the shareholders in general meeting.

Article 71 (A): Directors (excluding employee representative directors) will be elected at Shareholders' general meetings through cumulative voting. When directors are elected through cumulative voting at Shareholders' general meetings, the number of total votes that a shareholder can exercise is the product of (i) the number of shares held by such shareholder, and (ii) the number of directors to be elected. A shareholder can give all his or her votes to one director candidate or divide his or her votes among several director candidates. Directors are elected at the Shareholders' general meetings based on the number of votes the director candidates receive.

Article 95: The Company shall have a board of directors. The board of directors shall consist of seven (7) to thirteen (13) directors. External directors (refer to directors who do not hold any office within the Company) shall represent more than one-half of the board of directors including independent directors (refer to directors who are independent of the Shareholders and do not hold any office within the Company) not less than one third of the total number of directors and at least one of them shall be an accounting professional; the board of directors shall have one employee representative director.

The board of directors shall have one Chairman and one Vice-chairman.

Article 96: Directors (excluding employee representative directors) shall be elected at the Shareholders' general meeting. While employee representative directors shall be elected or removed by employee representative assembly. The term of office of the directors is three (3) years. At the expiry of a director's term, the term is renewable upon reelection.

The director (excluding employee representative director) candidates shall be nominated by the board of directors or shareholders. The notice of nomination of directors and the notice by a director candidate of his or her willingness to be elected shall be given to and lodged with the Company on, at the earliest, the day after the dispatch of the relevant notice of Shareholders' general meeting appointed for the election and seven days before the date of the Shareholders' general meeting.

The Chairman and the Vice-chairman shall be elected and removed by more than one half of all the members of the board of directors. The term of office of each of the chairman and the Vice-chairman is three (3) years, renewable upon re-election.

The Shareholders' general meeting may by ordinary resolution remove any director (excluding employee representative director) before the expiration of his term of office (but without prejudice to such director's right to claim damages based on any contract) on the condition that all the relevant laws and administrative regulations are fully complied with. The Directors shall not be required to hold shares of the Company.

Article 107 (A): Independent directors shall carry out duties faithfully, safeguard the interests of the Company and pay close attention to the protection of the legal rights and interests of the public shareholders from detriment.

Independent directors shall carry out duties independently and shall not be influenced by:

- (1) any substantial shareholder or actual controlling person of the Company; or
- (2) any interested entity or individual of the Company or any of its substantial shareholders or actual controlling persons.

Article 107 (H): Matters requiring the involvement of employee representative directors can generally be divided into two categories: matters requiring board resolutions; and matters requiring reporting to the board.

- (1) Matters requiring board resolutions: mainly include the enactment and amendment of basic management policy involving employee fundamental interests such as the Company's labor, remuneration policy, labor protection, rest days and holidays, safety and operation, training, education and welfare etc.

- (2) Matters requiring reporting to the board: mainly include claims, comments and suggestions regarding employee democratic governance and democratic oversight and relevant claims and comments or the issues of tendency involving employees' interests.

Article 132: Subject to Article 53, a director (excluding employee representative director), supervisor, general manager, deputy general manager or other senior administrative officer of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting.

On June 21, 2018, our shareholders approved further amendments to the Articles of Association:

Article 1: The Company is a joint stock limited company established in accordance with the Company Law of the People's Republic of China (the Company Law), State Council's Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share (the Special Regulations) and other relevant laws and regulations of the State. The Company was established by way of promotion with the approval under the document Ti Gai Sheng [1994] No. 140 of the People's Republic of China's State Commission for Restructuring the Economic System. It is registered with and has obtained a business license from China's State Administration for Industry and Commerce on April 14, 1995. On February 8, 2017, the Company completed the Combination of Three Licenses into One procedures for its business license, organization code certificate and tax registration certificate. The unified social credit code of the business license of the Company after the integration is 913100007416029816.

The promoter of the Company is: **China Eastern Air Holding Company Limited.**

On August 30, 2018, our shareholders approved further amendments to the Articles of Association.

Article 9: These articles of association are binding on the Company and its shareholders, directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company; all of whom are entitled to claim rights concerning the affairs of the Company in accordance with these articles of association.

These articles of association are actionable by a shareholder against the Company and vice versa, by shareholders against each other and by a shareholder against the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company in respect of rights and obligations concerning the affairs of the Company arising out of these articles of association.

The actions referred to in the preceding paragraph include court proceedings and arbitration proceedings.

The other senior administrative officers as referred herein shall refer to the financial controller, the secretary of the board of directors and the general counsel legal adviser of the Company and the senior administrative officers appointed by the board of directors excluded in preceding paragraphs.

Article 14: The scope of business of the Company shall comply with those items approved by the companies registration authority. The scope of business of the Company includes: domestic and approved international and regional business for air transportation of passengers, cargo, mail, luggage and extended services; general aviation business; maintenance of aviation equipment and machinery; manufacture and maintenance of aviation equipment; agency business for domestic and overseas airlines and other business related to air transportation; insurance by-business agency services; e-commerce (excluding value-added telecommunication services such as third party platforms); in-flight supermarket (excluding products sold under quota licenses and special permits); wholesale and retail of goods.

Article 97: The board of directors is responsible to the Shareholders' general meeting and exercises the following powers:

.....

(9) to appoint or dismiss the Company's general manager, to appoint or dismiss the secretary of the board of directors and pursuant to the general manager's nominations to appoint or dismiss the deputy general manager, the financial controller, the general counsel legal adviser and other senior administrative officers of the Company and decide on their remuneration;

.....

Article 99: The board of directors shall carry out its duties in compliance with the laws, administrative regulations, these articles of association and resolutions of the Shareholders' general meetings. The board of directors shall establish a risk prevention system of the Company, such as the general counsel legal adviser system, to ensure the Company's operation is in compliance with the requirements of the laws and regulations of the State.

Article 117: The supervisory committee shall be composed of three (3) to five (5) supervisors. The term of office of supervisors shall be three (3) years renewable upon re-election and reappointment. The supervisory committee shall have one chairman who is subject to election or removal with the consent of two thirds or more of the members of the supervisory committee. The term of office of the chairman shall be three (3) years renewable upon re-election and re-appointment.

Article 118: The supervisory committee shall comprise representatives of shareholders who shall be elected or removed by the shareholders in general meeting and representatives of staff and workers of the Company who shall be elected or removed democratically by the staff and workers, of which not less than one-third shall be representatives of staff and workers.

On June 21, 2018, our shareholders also approved below amendments to the Articles of Association in relation to the non-public issuance of A shares and H shares. Such amendments will become effective subject to the completion of the non-public issuance of A shares and the non-public issuance of H shares.

Article 21: As approved by the CSRC, the total amount of shares of the Company is [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results] shares.

Article 22: The Company has issued a total of [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results] ordinary shares, comprising a total of [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results] A Shares, representing [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results]% of the total share capital of the Company, a total of [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results] H Shares, representing [Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results]% of the total share capital of the Company.

Article 25: The registered capital of the Company is RMB[Number to be determined according to the issuance proposal approved by the relevant regulatory authorities and the issuance results].

### **C. Material Contracts**

For a summary of any material contracts entered into by our Company or any of our consolidated subsidiaries outside of the ordinary course of business during the last two years, see Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects and Item 7. Major Shareholders and Related Party Transactions.

### **D. Exchange Controls**

The Renminbi is not currently a freely convertible currency. SAFE, under the authority of PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises subject to SAFE approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange rate, the PRC government announced the establishment of an inter-bank foreign exchange market, the China Foreign Exchange Trading System, or CFETS, and the phasing out of the swap centers. Effective December 1, 1998, the swap centers were abolished by the PRC government.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar. While the international reaction to Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar.



In general, under existing foreign exchange regulations, domestic enterprises operating in China must price and sell their goods and services in China in Renminbi. Any foreign exchange received by such enterprises must be sold to authorized foreign exchange banks in China. A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign currency transactions, but not under the capital account, which includes foreign direct investment, unless the prior approval of the SAFE, is obtained. As a foreign investment enterprise approved by the MOC, we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

## **E. Taxation**

The taxation of income and capital gains of holders of H Shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H Shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this Annual Report, all of which are subject to change.

### **Hong Kong Taxation**

The following discussion summarizes the relevant Hong Kong tax rules relating to the ownership of H shares or ADSs purchased in connection with the global offering and held by you.

#### *Dividends*

Under current Hong Kong Inland Revenue Department practice, no profits tax is payable by the recipient in respect of dividends paid by us.

#### *Taxation of Capital Gains*

Gains derived from the sale of capital assets are specifically exempt from profits tax. Thus, no profits tax is imposed on capital gains arising from the sale of property (such as H shares) acquired and held as a capital asset. However, whether or not there has been a sale of a capital asset depends upon the particular circumstances of a case. If a person carries on a business in Hong Kong of trading and dealing in securities and derives trading gains from that business in Hong Kong, that person could be subject to profits tax on any assessable gains. Assessable gains include gains derived from the sales of H shares effected on the Hong Kong Stock Exchange as these gains are considered to be trading gains derived from Hong Kong. Profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for unincorporated businesses (i.e. individuals). From the year of assessment 2018/19, a concessionary tax rate (i.e. half of the current tax rate) can apply to corporations or unincorporated businesses for the first HK\$2 million of assessable profits subject to applicable conditions.

No profits tax liability will arise on trading gains arising from the sale of ADSs where the purchase and sale is effected outside Hong Kong (e.g. on the NYSE).

#### *Hong Kong Stamp Duty*

Stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is levied at the total rate of 0.2% (0.1% for each of sold note and bought note) of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the amount of unpaid stamp duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such unpaid amount.

If the withdrawal of H shares when ADSs are surrendered or the issuance of ADSs when H shares are deposited results in a change of beneficial ownership in the H shares under Hong Kong law, stamp duty at the rate cited above for a sale and purchase transaction will apply. The issuance of ADSs for deposited H shares issued directly to the depository, or for the account of the depository, should not result in any stamp duty liability. Holders of the ADSs are

not liable for the stamp duty on transfers of ADSs outside of Hong Kong so long as the transfers do not result in a change of beneficial interest in the H shares under Hong Kong law.

*Hong Kong Estate Duty*

Hong Kong estate duty was abolished with respect to persons passing away on or after February 11, 2006.

## China Taxation

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of the H Shares and ADSs. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of China as in effect on the date of this Annual Report, as well as on the U.S.- China Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

In general, and taking into account the earlier assumptions, for Chinese tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the H Shares represented by those ADSs, and exchanges of H Shares for ADSs, and ADSs for H Shares, will not be subject to Chinese tax.

### *Taxation of Dividends by China*

#### *Individual investors*

*The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System*, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However on July 21, 1993, the Chinese State Tax Bureau issued a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals Numbered Guo Shui Fa [1993] No. 045, or No. 45 Document which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

Nevertheless, No.45 Document was abolished on January 4, 2011 and the Chinese State Tax Bureau issued, on June 28, 2011, a Notice on Issues Concerning the Levy of Individual Income Tax following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045, according to which dividends from a Chinese company are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20% unless otherwise provided in applicable tax treaties between the PRC and the jurisdiction in which the relevant non-resident shareholder resides. The tax rate of dividends income tax applicable to Hong Kong residents and U.S. residents is 10% of the gross amount of interest.

On October 31, 2014, CSRC, MOF and STA together promulgated *The Notice of the Relevant Tax Policy of the Pilot Program for the Shanghai-Hong Kong Stock Connect* (Hereinafter refer to as Notice 81) which has been effective from November 17, 2014. Pursuant to Notice 81, for dividends acquired by mainland individual investors through investment in H-shares listed on the Hong Kong Stock Exchange via Hong Kong-Shanghai Stock Connect, the H-share company shall apply to China Securities Depository and Clearing Corporation Limited (Hereinafter refer to as Chinese Clearing). Chinese Clearing shall provide the H-share company with the mainland individual s investor rosters. The H-share company withholds the individual income tax at the tax rate of 20%. For dividends acquired by mainland securities investment funds through investment in shares listed on the Hong Kong Stock Exchange via Hong Kong- Shanghai Stock Connect, the individual income tax shall be collected according to the regulations hereinbefore.

For dividends acquired by Hong Kong investors (including enterprises and individuals) through investment in A-shares listed on the Shanghai Stock Exchange, before Hong Kong Securities Clearing Limited (Hereinafter refer to as Hong Kong Clearing) meet the conditions to provide Chinese Clearing with detailed data of investors identity certification and time of shareholding, the different tax policy according to time of shareholding will temporarily not to be implemented. The listed company shall withhold the income tax at the tax rate of 10%, declare, and pay to the tax authorities.

*Enterprises*

Under the EIT Law amended in 2018 and the implementation regulations to the EIT Law, effective from January 1, 2008, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. The rate could be reduced or eliminated pursuant to an applicable double taxation treaty.

In accordance with the Notice 81, (a) dividends acquired by mainland enterprise investors through investment in shares listed on the Hong Kong Stock Exchange via Hong Kong-Shanghai Stock Connect will be accounted into their total income and subject to enterprise income tax according to the laws. Among those, for the dividends acquired by mainland enterprise investors through continuing holding H shares for 12 months, the enterprise income tax shall be exempted according to the laws; (b) the H-share company listed on the Hong Kong Stock Exchange shall apply to the Chinese Clearing to offer them the mainland enterprise investor rosters. The H-share company does not withhold income tax from dividends for mainland enterprise investors. The enterprises shall declare and pay by themselves; and (c) the mainland enterprise investors may apply for tax credits for dividends already withheld by non-H-share listed companies on the Hong Kong Stock Exchange when declaring and paying the enterprise tax income.

### *Tax Treaties*

Non-Chinese investors resident in countries, which have entered into double-taxation treaties with China, may be entitled to a reduction of the withholding tax imposed on the payment of dividends to non-Chinese investors of our Company. China currently has double-taxation treaties with a number of other countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Notice 81 explicitly stipulated that for Hong Kong investors who are tax residents of other countries that have signed the tax agreement with China to regulate the tax rate for dividends, that income tax to be less than 10%, the enterprise or individual may, by themselves or withholding agents, apply for the treatment of the tax agreement to the tax authorities of listed companies. After examination and verification, the tax authorities shall reimburse the difference between the levied tax and the payable tax according to the tax agreement.

Under the U.S.-China Treaty, China may tax a dividend paid by our Company to a U.S. holder of H Shares or ADSs only up to a maximum of 10% of the gross amount of such dividend.

### ***Taxation of Capital Gains by China***

#### *Individual Investors*

According to the Law of Individual Income Tax and its implementation regulations, holders of H Shares or ADSs who have no domiciles and do not reside in China or who have no domiciles but have resided in China for less than one year shall be subject to individual income tax on their income gained within China, unless otherwise reduced or eliminated pursuant to an applicable double taxation treaty.

Notice 81 requires, (a) from November 17, 2014 to November 16, 2017, the income tax from transfer price difference will be temporarily exempted for mainland individual investors' investment in shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect; (b) for mainland individual investors, the business tax from transfer price difference in the trading of shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect will be temporarily exempted according to current policy; and (c) the income tax and the business tax from transfer price difference will be temporarily exempted for Hong Kong individual investors' investment in A-shares listed on the Shanghai Stock Exchange.

Under the U.S.-China Treaty, China may only tax gains from the sale or disposition by a U.S. holder of H Shares or ADSs representing an interest in the company of 25% or more.

#### *Enterprises*

Under the EIT Law and the implementation regulations to the EIT Law, gains realized upon the sale of Overseas Shares by non-resident enterprises may be subject to PRC taxation at the rate of 10% (or lower treaty rate).

Pursuant to Notice 81, the income tax from transfer price difference will be accounted into the total income and subject to enterprise income tax according to the laws for mainland enterprise investors' investment in shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect. For mainland enterprise investors, the business tax from transfer price difference in the trading of shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect shall be levied and exempted according to current policy. Income tax and the business tax from transfer price difference will be temporarily exempted for Hong Kong enterprise investors' investment in A-shares listed on the Shanghai Stock Exchange.

### ***PRC Stamp Tax***

Chinese stamp tax imposed on the transfer of shares of Chinese publicly traded companies under the Share System Tax Regulations should not apply to the acquisition or disposition by non-Chinese investors of H Shares or ADSs outside of China by virtue of the Provisional Regulations of the People's Republic of China Concerning Stamp Tax, which provides that Chinese stamp tax is imposed only on documents executed or received within China or that should be considered as having been executed or received within China.

According to Notice 81, Hong Kong investors shall pay stamp duty according to mainland current tax policy when trading, inheriting, gifting the A- shares listed on the Shanghai Stock Exchange through Hong Kong-Shanghai Stock Connect.

### **United States Federal Income Taxation**

Each potential investor is strongly urged to consult his or her own tax adviser to determine the particular U.S. federal, state, local, treaty and foreign tax consequences and US reporting and compliance requirement of acquiring, owning or disposing of the H Shares or ADSs.

The following is a general discussion of material U.S. federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. Holder, as defined below, and hold the H Shares or ADSs as capital assets within the meaning of Section 1221 of the *U.S. Internal Revenue Code of 1986* as amended (the *Code* ). This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H Shares or ADSs, and does not take into account U.S. Holders (defined below) who may be subject to special rules including:

tax-exempt entities;

banks, financial institutions, and insurance companies;

real estate investment trusts, regulated investment companies and grantor trusts;

dealers or traders in securities, commodities or currencies;

U.S. Holders that own, actually or constructively, 10% or more of our voting stock;

persons who receive the H Shares or ADSs as compensation for services;

U.S. Holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction;

persons that generally mark their securities to market for U.S. federal income tax purposes;

U.S. citizens or tax residents who are residents of the PRC;

U.S. citizens or tax residents who are subject to Hong Kong profits tax;



certain U.S. expatriates;

dual resident corporations; or

U.S. Holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address U.S. federal estate, gift or alternative minimum taxes, the U.S. federal unearned Medicare contribution tax, or any state or local tax consequences of the acquisition, ownership and disposition of the H Shares or ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a U.S. Holder if you are a beneficial owner of H Shares or ADSs and are:

an individual citizen or resident of the United States for U.S. federal income tax purposes;

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;

an estate the income of which is subject to U.S. federal income tax without regard to its source; or

a trust if (i) a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor.

In general, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H Shares represented by the ADSs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to U.S. federal income tax.

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSs, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.**

**Distributions on the H Shares or ADSs**

Subject to the discussion below under [Passive Foreign Investment Company](#), the gross amount of any distribution (without reduction for any withheld PRC tax) we make on the H Shares or ADSs out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will be includible in your gross income as ordinary dividend income when the distribution is actually or constructively received by you, or by the depositary in the case of ADSs. Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H Shares or ADSs and thereafter as capital gain. We, however, may not calculate earnings and profits in accordance with U.S. tax principles. Accordingly, all distributions by us to U.S. Holders will generally be treated as dividends. Any dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from U.S. corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by certain non-corporate holders will be subject to taxation at a maximum rate of 20% if the dividends are qualified dividends. Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are, with respect to ADSs, readily tradable on a U.S. securities market, provided that we were not, in each case, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the Treaty) has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Finally, based on our audited consolidated financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2016 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2017 taxable year or any future year. However, our status in the current year and future years will depend on our income and assets (which for this purpose depends in part on the market value of the H Shares or ADSs) in those years. See the discussion below under [Passive Foreign Investment Company](#).

Holders of H Shares or ADSs should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is actually or constructively received by you, regardless of whether you convert the distribution into U.S. dollars. Any gain or loss resulting from currency

exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you convert the distribution into U.S. dollars will be treated as ordinary income or loss from U.S. sources. If dividends received in HK dollars are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to various limitations, any PRC tax withheld from distributions in accordance with the Treaty will be deductible or creditable against your U.S. federal income tax liability depending on the application of the section 904 foreign tax credit limitation provisions. Dividends paid by us generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as passive category income or, in the case of certain U.S. Holders, as general category income for U.S. foreign tax credit purposes.

In the event we are required to withhold PRC income tax on dividends paid to U.S. Holders on the H Shares or ADSs (see discussion under China Taxation ), you may be able to claim a reduced 10% rate of PRC withholding tax if you are eligible for benefits under the Treaty. You should consult your own tax adviser about the eligibility for reduction of PRC withholding tax.

You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-U.S. taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. In addition, if the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating a U.S. Holder's foreign tax credit limitation will generally be limited to the gross amount of the taxable dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance.

### **Sale, Exchange or Other Disposition**

Subject to the discussion below under **Passive Foreign Investment Company**, upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Generally, gain or loss recognized upon the sale or other disposition of H Shares or ADSs, will be long-term capital gain or loss if the U.S. Holder's holding period for such H Shares or ADSs exceeds one year, and will be income or loss from sources within the United States for foreign tax credit limitation purposes. For non-corporate U.S. Holders, the U.S. income tax rate applicable to net long-term capital gain currently will not exceed 20.0%. The deductibility of capital losses is subject to significant limitations.

A U.S. Holder that receives foreign currency from a sale or disposition of H Shares or ADSs generally will realize an amount equal to the U.S. dollar value of the foreign currency determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder. If Shares are treated as traded on an established securities market, a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. Holder will have a tax basis in the foreign currency received equal to the U.S. dollar amount realized. Any currency exchange gain or loss realized on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognize any gain or loss on such conversion.

Any gain or loss will generally be U.S. source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under the Treaty, however, if any PRC tax were to be imposed on any gain from the disposition of H Shares or ADSs, the gain could be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the interaction of the foreign tax credit and the Treaty resourcing rule.

### **Passive Foreign Investment Company**

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

75% or more of its gross income consists of passive income, such as dividends, interest, rents, royalties, and gains from the sale of assets that give rise to such income; or

50% or more of the average quarterly value of its gross assets consists of assets that produce, or are held for the production of, passive income.

Passive income for this purpose includes, for example, dividends, interest, royalties, rents and gains from commodities and securities transactions. Passive income does not include rents and royalties derived from the active conduct of a trade or business. If the stock of a non-U.S. corporation is publicly traded for the taxable year, the asset test is applied using the fair market value of the assets for purposes of measuring such corporation's assets. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income for purposes of the PFIC income and asset tests.

Based on the current and anticipated composition of our assets and income and the current expectations regarding the price of the H Shares and ADSs, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2017 taxable year and we do not intend to become or anticipate becoming a PFIC for the current or any future taxable year. However, the determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard until the close of the 2018 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to excess distributions made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An excess distribution generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest U.S. federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income. If we were a PFIC in any year during a U.S. Holder's holding period, we would generally be treated as a PFIC for each subsequent year absent a purging election by the U.S. Holder.

These adverse tax consequences may be avoided if the U.S. Holder is eligible to and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for marketable stock, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The ADSs should qualify as marketable stock because the ADSs are listed on the New York Stock Exchange. However, the stock of any of our subsidiaries that were PFICs would not be eligible for the mark-to-market election.

A U.S. Holder's adjusted tax basis in the H Shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years, unless the H Shares or ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Alternatively, a timely election to treat us as a qualified electing fund could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If we were regarded as a PFIC, a U.S. Holder of H Shares or ADSs generally would be required to file an information return on IRS Form 8621 for any year in which the holder received a direct or indirect distribution with respect to the H Shares or ADSs, recognized gain on a direct or indirect disposition of the H Shares or ADSs, or made an election with respect to the H Shares or ADSs, reporting distributions received and gains realized with respect to the H Shares or ADSs. In addition, if we were regarded as a PFIC, a U.S. Holder would be required to file an annual information return (also on IRS Form 8621) relating to the holder's ownership of the shares or ADSs. This requirement would be in addition to other reporting requirements applicable to ownership in a PFIC.

We encourage you to consult your own tax adviser concerning the U.S. federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

**Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to backup withholding with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you:

are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or

provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certifying that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules; or

provide a properly completed IRS Form W-8BEN, certifying your status as a non-U.S. Holder. Any amount withheld under the backup withholding rules generally will be creditable against your U.S. federal income tax liability or may be refunded to the extent they exceed such liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS.

Certain U.S. Holders may be required to report information with respect to such holder's interest in specified foreign financial assets (as defined in Section 6038D of the Code), including stock of a non-U.S. corporation that is not held in an account maintained by certain financial institutions, if the aggregate value of all such assets exceeds certain dollar thresholds. Persons who are required to report specified foreign financial assets and fail to do so may be subject to substantial penalties. U.S. Holders are urged to consult their own tax advisors regarding the foreign financial asset reporting obligations and their possible application to the holding of H Shares or ADSs.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

You may read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the Securities and Exchange Commission at its public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

The SEC allows us to incorporate by reference the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this Annual Report on Form 20-F.

#### **I. Subsidiary Information**

For a listing of our significant subsidiaries, see Item 4. Information on the Company History and Development of the Company .

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**



Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2018, the notional amount of our outstanding interest rate swap agreements was approximately US\$1,102 million. The net fair value of the outstanding interest rate swap agreements gave rise to an asset of approximately RMB223 million as of December 31, 2018. These interest rate swap agreements will expire between 2019 and 2025. If the interest rate had been 25 basis points higher with all other variables held constant, interest expenses on our floating rate instruments would have increased by RMB112 million in 2018.

## Foreign Currency Exchange Rate Risk

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in U.S. dollars and Renminbi. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2018, the notional amount of the outstanding currency forward contracts was approximately US\$655 million, which will expire in 2019.

Pursuant to IFRSs, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at year-end, at exchange rates announced by the PBOC. Transactions in currencies other than the Renminbi during the year are converted into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction. Transaction gains and losses are recognized in our profit or loss account. In 2018, we had foreign exchange loss of RMB2,040 million. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, the Renminbi has appreciated significantly against certain foreign currencies, including the U.S. dollar and Japanese yen. The following table shows the effect on our profit and loss account as a result of the impact on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2018 as a consequence of a fluctuation in value of the following major foreign currencies.

|                                | <b>Profit and Loss Account<br/>(Decrease)/Increase</b> |
|--------------------------------|--|
| U.S. dollar depreciates by 1%  | 178  |
| Japanese yen depreciates by 1% | 24   |
| SGD depreciates by 1%          | 23   |
| Euro depreciates by 1%         | 26   |
| KRW depreciates by 1%          | 7  |

## Fuel Price Fluctuation Risk

Our earnings are affected by changes in the price and availability of jet fuel. Our results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for us. If the average price of jet fuel had increased or decreased by 5%, our jet fuel costs would have increased or decreased by approximately RMB1,684 million in 2018. The sensitivity analysis of jet fuel price risk is disclosed in Note 52 to the consolidated financial statements. In 2018, we have not conducted aviation fuel hedging activities.

## Item 12. Description of Securities Other than Equity Securities

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

## D. American Depositary Shares

Our ADSs, each representing 50 H shares, are traded on the New York Stock Exchange under the symbol CEA. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by BNYM, as depositary under the Deposit Agreement, dated as of February 5, 1997, among the Company, BNYM and holders and beneficial owners of ADSs. BNYM's principal executive office is at 240 Greenwich Street, New York City, New York, U.S. ADS holders are required to pay the following service fees to BNYM:

| <b>Service</b>   | <b>Fees (in U.S. dollars)</b>  |
|--|--|
| Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property  | US\$5.00 (or less) per ADSs (or portion of 100 ADSs)   |
| Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates  | Cancellation fees  |
| Any cash distribution to ADS registered holders  | N/A  |
| Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders      | A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs                                  |
| Depositary services  | N/A  |
| Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares | Registration or transfer fees  |
| Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)  | Expenses of the depositary   |
| Converting foreign currency to U.S. dollars  | Foreign exchange fees  |
| As necessary   | Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes |
| As necessary   | Any charges incurred by the depositary or its agents for servicing the deposited securities  |

For the past annual period, from January 1, 2018 to December 31, 2018, the Company received from the depositary an aggregate of US\$79,639.1 for continuing stock exchange annual listing fees and reimbursement fees, and waived standard out-of-pocket maintenance costs for the ADRs (consisting of administrative expenses) of US\$119,864.2.

BNYM, as depositary, has agreed to reimburse the Company for expenses incurred in the future in relation to the establishment and maintenance of the ADS program, which include standard out-of-pocket expenses such as postage and envelopes for mailing annual and interim financial reports and all related administrative and documentary expenses. BNYM has agreed to reimburse the Company annually for certain investor relationship programs and promotional activities. There are limits as to the amount of reimbursable expenses and this amount is not necessarily commensurate with the amount of fees BNYM collects from ADS investors. BNYM collects fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. BNYM collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay fees. BNYM may also collect its annual fee by deducting cash

distributions or by directly billing investors, or by charging the book-entry system accounts of participants acting for investors.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use Of Proceeds**

On August 10, 2010, we effected an ADS split whereby each ADS now represents 50 H shares. There was no change to the rights and preferences of the underlying H shares.

## **Item 15. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our President and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this Annual Report. Our management, with the participation of President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures, have concluded that as of the end of the period covered by this Form 20-F, our disclosure controls and procedures were effective to ensure that material information required to be disclosed in the reports that we file and furnish under Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations.

Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information required to be disclosed by us in the reports that we file or submit under Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) and has designed internal control procedures over financial reporting or caused internal control procedures over financial reporting to be designed under our supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles, as applicable. Under the supervision and with the participation of our President and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 based upon the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework)(the COSO criteria). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRSs.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm in Shanghai, the PRC, as stated in their report which is included herein.

### **Changes in Internal Control over Financial Reporting**

During 2018, there have been no changes in our internal control over financial reporting that occurred during the fiscal year covered by this annual report that have materially affected, or are reasonably likely to materially affect, our

internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Mr. Li Ruoshan, the chairman of our audit committee, is an independent financial expert serving on our audit committee, given his experience in the academic aspects of accounting and notable achievements in accounting education and academic research. Mr. Li Ruoshan is independent of the Board of Directors, senior management, supervisors or substantial shareholders of our Company.

**Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our Directors, supervisors, President, Chief Financial Officer and other senior managers of our Company. We have filed this code of ethics as Exhibit 11.1 to this annual report (which is incorporated by reference). A copy of our code of ethics will be provided to any person free of charge upon written request to Wang Jian, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at 5/F, Block A2, Northern District, CEA Building, 36 Hongxiang 3rd Road, Minhang District, Shanghai, China.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants, Ernst & Young Hua Ming LLP for the year ended December 31, 2017 and 2018, and all other fees billed for products and services provided by our principal accountants other than the audit fees and audit-related fees and tax fees:

|      | <b>Audit Fees</b> | <b>Audit-Related<br/>Fees</b> | <b>Tax<br/>Fees</b> | <b>All Other<br/>Fees</b> |
|------|-------------------|-------------------------------|---------------------|---------------------------|
|      | (RMB)             | (RMB)                         | (RMB)               | (RMB)                     |
| 2017 | 17,250,000        | 1,380,000                     | 121,881             |                           |
| 2018 | 16,150,000        | 55,000                        | 199,673             | 2,130,000                 |

Before our principal accountants were engaged by our Company or our subsidiaries to render audit or non-audit services, our audit committee approved the engagements.

**Audit Fees**

Audit fees primarily consist of fees for the audits of the Company's financial statements prepared under both of IFRSs & *PRC Accounting Standards for Business Enterprises* as of and for the years ended December 31, 2017 and 2018.

**Audit-Related Fees**

Audit-Related fees for the year ended December 31, 2018 primarily consist of fees for the verification services of revenue regarding the bellyhold space and robotic process automation services.

Audit-Related fees for the year ended December 31, 2017 primarily consist of fees for the verification services of revenue regarding the bellyhold space and diagnosis over the IFRS 16.

**Audit Committee Pre-approval Policies and Procedures**

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by our independent registered public accounting firm. The pre-approval procedures are as follows:

Any audit or non-audit service to be provided to us by the independent accountant must be submitted to the audit committee for review and approval, with a description of the services to be performed and the fees to be charged.

The audit committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.



**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

On November 9, 2012, we held an extraordinary general meeting to approve, among other things, the proposals for the non-public issuance of A Shares and H Shares to specific placees.

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

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

## **Item 16F. Changes in Registrant's Certifying Accountant**

### **(a) Change of Principal Accountant**

On March 30, 2017, Ernst & Young was not re-appointed as our independent registered public accounting firm.

The audit report of Ernst & Young on our consolidated financial statements for the fiscal years ended December 31, 2015 and 2016 did not contain any adverse opinion or a disclaimer of opinion, nor was such report qualified or modified in any way as to any uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2015 and 2016 and up to April 27, 2017, there were no disagreements (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young, would have caused Ernst & Young to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements during the end of such fiscal years.

During the fiscal years ended December 31, 2015 and 2016 and up to April 27, 2017, there were no reportable events (defined below) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term reportable event means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We have provided Ernst & Young with a copy of the disclosures under Item 16F(a) as included herein and have requested that Ernst & Young furnish us with a letter addressed to the SEC stating whether Ernst & Young agrees with the foregoing statements. A copy of the letter dated April 25, 2018, furnished by Ernst & Young in response to that request was filed as Exhibit 15.1 to this Form 20-F (which is incorporated by reference).

### **(b) Engagement of New Principal Accountant**

On March 30, 2017, the Board of Directors resolved to appoint Ernst & Young Hua Ming LLP as our independent registered public accounting firm and decided to submit this resolution to the 2016 annual general meeting for consideration and approval. Such resolution was approved by our shareholders at the annual general meeting held on June 28, 2017.

During the fiscal years ended December 31, 2015 and 2016 and up to April 27, 2017, we did not consult, and have not authorized anyone on our behalf to consult Ernst & Young Hua Ming LLP with respect to any matter: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Ernst & Young Hua Ming LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with Ernst & Young or a reportable event (as described in Item 16F (a)(1)(v) of Form 20-F).

## **Item 16G. Corporate Governance**

The NYSE has imposed a series of corporate governance listing standards for companies listed on the NYSE in Section 303A of its listing rules. However, the NYSE provides that listed companies that are foreign private issuers, subject to certain limitations and conditions, are permitted to follow home country practice in lieu of the provisions of

Section 303A of the NYSE Listed Company Manual. To qualify for this exemption, a listed foreign private issuer must disclose any significant differences between their corporate governance practices and the requirements of the NYSE corporate governance standards.

As a foreign private issuer, we are subject to more than one set of corporate governance requirements. In the table below, we set out material differences between our corporate governance practices and the NYSE's corporate governance requirements as set out in Section 303A of the Listed Company Manual:

|  | <b>NYSE Listed Company</b>   |  |
|--|--|--|
|  | <b>Manual Requirements on</b>  |  |
|  | <b>Corporate Governance</b>  | <b>Company's Practices</b>   |
| <b>Majority independent requirement of the Board of Directors</b>                                      | Section 303A.01 of the Listed Company Manual requires that listed companies must have a majority of independent Directors.   | There is no identical corporate governance requirement in the PRC. As a company listed in the PRC, the Company is subject to the requirement under the Independent Director Guidance that at least one-third of the Board of Directors be independent as determined thereunder. The standards for establishing independence set forth under the Independent Director Guidance of the PRC differ, to some extent, from those set forth in the <i>NYSE Listed Company Manual</i> . We currently have five independent directors out of a total of seven Directors. |
| <b>Non-management directors must meet at regularly scheduled executive sessions without management</b> | Section 303A.03 of the Listed Company Manual requires non-management directors of each listed company to meet at regularly scheduled executive sessions without management participation.  | There is no identical corporate governance requirement in the PRC.   |
| <b>Audit and Risk Management Committee</b>   | Sections 303A.06 and 303A.07 of the <i>NYSE Listed Company Manual</i> provides that listed companies must have an audit committee composed entirely of independent directors. In addition, audit committee members must satisfy the independence requirements set forth in Section 303A.02(a)(ii). The factors to be considered for independence include whether the committee member receives any consulting, advisory or other compensatory fees from the company and whether such | There is no identical corporate governance requirement in the PRC. Under the PRC laws and the applicable listing rules in the PRC, a majority of the members of the audit committee must be independent directors. The Audit and Risk Management Committee of the Company is composed of three members, all of which are independent non-executive Directors.  |

director is affiliated with the listed  
company or its subsidiary.

**NYSE Listed Company**

**Manual Requirements on**

| <b>Nominating/Corporate Governance Committee</b> | <b>Corporate Governance</b>  | <b>Company's Practices</b>  |
|--|--|---|
|  | <p>Section 303A.04 of the Listed Company Manual requires that (i) listed companies must have a nominating/corporate governance committee composed entirely of independent directors and (ii) the nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.</p> | <p>The merger of the Nomination Committee and Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of Directors held on March 19, 2010. The Nominations and Remuneration Committee currently consists of three members, two of which are independent non-executive Directors.</p>   |
| <b>Compensation Committee</b>                    | <p>Section 303A.05 of the Listed Company Manual requires that listed companies must (i) have a compensation committee composed entirely of independent directors and (ii) the compensation committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.</p>                                       | <p>The Nominations and Remuneration Committee is a specialized committee under the Board of Directors. It is responsible for the discussion in regard to nominees, standards and procedures for selecting directors and senior management of the Company and making recommendations; responsible for studying and examining the remuneration policy and solutions of directors and senior management of the Company; responsible for studying the performance appraisal standards for directors and senior management of the Company, conducting appraisals and making recommendation.</p> <p>We have established a Nominations and Remuneration Committee. The merger of the Nomination Committee and Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of Directors held on March 19, 2010. The Nominations and Remuneration Committee currently consists of</p> |

three members, two of which are independent nonexecutive Directors.

**Code of Business Conduct and Ethics**

Section 303A.10 requires a listed company to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers from the code for directors or executive officers.

As required under the *Sarbanes-Oxley Act of 2002*, the Company has adopted a code of ethics that is applicable to the Company's Directors, Supervisors, President, Chief Financial Officer and other senior managers.

In addition, we have posted a description of such differences under the section entitled "Report of Directors" of our 2018 Hong Kong Annual Report, which can be accessed through the following link:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0425/LTN201904251949.pdf>

**Item 16H. Mine Safety Disclosures**

Not applicable.

**PART III**

**Item 17. Financial Statements**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Item 18. Financial Statements**

Reference is made to pages F-1 to F-93.



**Item 19. Exhibits**

(a) See Item 18 for a list of the financial statements filed as part of this Annual Report.

(b) Exhibits to this Annual Report:

Exhibit Index

| Exhibits | Description   |
|----------|---|
| 1.1      | <u>Articles of Association as amended on August 30, 2018 (English translation) (Furnished to the Securities and Exchange Commission on our Form 6-K as filed on August 31, 2018).</u> **  |
| 2.1      | <u>Specimen Certificate for the H Shares.</u> **  |
| 2.2      | <u>Form of Deposit Agreement among the Registrant, The Bank of New York, as depository, and Owners and Beneficial Owners from time to time of American Depositary Receipts (Filed as FORM OF DEPOSIT AGREEMENT on our Form F-6 as filed on July 26, 2010).</u> **                               |
| 4.1      | <u>Aircraft Sale and Purchase Agreement relating to the disposal of eight Bombardier CRJ-200 Aircraft and ten Embraer ERJ-145 Aircraft, dated November 23, 2012, among our Company, Airbus SAS and other parties (Filed as Exhibit 4.27 to our Form 20-F as filed on April 24, 2013).</u> **/** |
| 4.2      | <u>Amendment No. 2 to the A 320 Family Purchase Agreement dated December 30, 2010, dated November 23, 2012, between our Company and Airbus SAS (Filed as Exhibit 4.28 to our Form 20-F as filed on April 24, 2013).</u> **/**   |
| 4.3      | <u>Acquisition Agreement for Used Aircraft relating to five Airbus Model A340-642 Aircraft, dated April 27, 2012, between our Company and Boeing Aircraft Holding Company (Filed as Exhibit 4.29 to our Form 20-F as filed on April 24, 2013).</u> **/**  |
| 4.4      | <u>Purchase Agreement Number PA-03746 relating to Boeing Model 777-300ER Aircraft, dated April 27, 2012, between our Company and the Boeing Company (Filed as Exhibit 4.30 to our Form 20-F as filed on April 24, 2013).</u> **/**  |
| 4.5      | <u>Purchase Agreement Number PA-4076 relating to Boeing Model 737-8 Aircraft, dated June 13, 2014, between our Company and the Boeing Company (Filed as Exhibit 4.5 to our Form 20-F as filed on April 25, 2015).</u> **/**   |
| 4.6      | <u>Purchase Agreement Number PA-4077 relating to Boeing Model 737-800 Aircraft, dated June 13, 2014, between our Company and the Boeing Company (Filed as Exhibit 4.6 to our Form 20-F as filed on April 25, 2015).</u> **/**   |
| 4.7      | <u>Purchase Agreement relating to Airbus A320NEO Aircraft, dated February 28, 2014, between our Company and Airbus SAS (Filed as Exhibit 4.7 to our Form 20-F as filed on April 25, 2015).</u> **/**  |
| 4.8      | <u>Supplemental Agreement No.1 to Purchase Agreement Number PA-4077 relating to Boeing Model 737-800 Aircraft, dated July 9, 2015, between our Company and the Boeing Company (Filed as Exhibit 4.8 to our Form 20-F as filed on April 25, 2016).</u> **/**                                     |
| 8.1      | <u>List of Subsidiaries (as of December 31, 2018).</u>  |
| 11.1     | <u>Code of Ethics (English translation) (Filed as Exhibit 11.1 to our Form 20-F as filed on June 24, 2008).</u> **  |

|         |  |
|---------|--|
| 12.1    | <u>Certification of the President pursuant to Rule 13a-14(a).</u>                          |
| 12.2    | <u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).</u>            |
| 13.1    | <u>Certification of the President pursuant to Rule 13a-14(b).</u>                          |
| 13.2    | <u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(b).</u>            |
| 15.1    | <u>Letter from Ernst &amp; Young with respect to the disclosures under Item 16F(a). **</u> |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                      |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                       |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                     |

*Note:*

- \* Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.
- \*\* Incorporated by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CHINA EASTERN AIRLINES CORPORATION LIMITED

By: /s/ Liu Shaoyong

Name: Liu Shaoyong

Title: Chairman of the Board of Directors

Date: April 26, 2019

Audited Financial Statements

CHINA EASTERN AIRLINES CORPORATION LIMITED

(Established in the People's Republic of China with limited liability)

December 31, 2018, 2017 and 2016

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of China Eastern Airlines Corporation Limited

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of China Eastern Airlines Corporation Limited (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated April 26, 2019 expressed an unqualified opinion thereon.

**Adoption of New Accounting Standards**

As discussed in Note 2.2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers, the impairment of financial assets, the recognition, measurement, presentation and disclosure of certain equity investments using a modified retrospective approach in the year ended December 31, 2018.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2013.

Shanghai, the People's Republic of China  
April 26, 2019

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## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of China Eastern Airlines Corporation Limited

### **Opinion on Internal Control Over Financial Reporting**

We have audited China Eastern Airlines Corporation Limited's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, China Eastern Airlines Corporation Limited (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2018, the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the year ended December 31, 2018, and the related notes and our report dated April 26, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Hua Ming LLP

Shanghai, the People's Republic of China  
April 26, 2019

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Eastern Airlines Corporation Limited

We have audited the accompanying consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows of China Eastern Airlines Corporation Limited (the Company) for the year ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of the Company's operations and its cash flows for the year ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young

Hong Kong  
April 27, 2017

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the years ended December 31, 2018, 2017 and 2016

(Amounts in millions except for per share data)

|  |              | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|--|--------------|--------------------|--------------------|--------------------|
|  | <i>Notes</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| <b>Revenues</b>  | 5            | 115,278            | 102,475            | 98,904             |
| Other operating income and gains   | 6            | 6,592              | 7,481              | 5,469              |
|  |              | 121,870            | 109,956            | 104,373            |
| <b>Operating expenses</b>  |              |                    |                    |                    |
| Aircraft fuel  |              | (33,680)           | (25,131)           | (19,626)           |
| Take-off and landing charges   |              | (14,914)           | (13,254)           | (12,279)           |
| Depreciation and amortization  |              | (15,313)           | (13,969)           | (12,154)           |
| Wages, salaries and benefits   | 7            | (22,134)           | (20,320)           | (18,145)           |
| Aircraft maintenance   |              | (3,738)            | (5,346)            | (4,960)            |
| Impairment charges   | 8            | (318)              | (494)              | (39)               |
| Impairment losses on financial assets, net                                 | 9            | (27)               | 3                  | 10                 |
| Food and beverages   |              | (3,383)            | (3,090)            | (2,862)            |
| Aircraft operating lease rentals   |              | (4,306)            | (4,318)            | (4,779)            |
| Other operating lease rentals  |              | (928)              | (836)              | (868)              |
| Selling and marketing expenses   |              | (3,807)            | (3,294)            | (3,133)            |
| Civil aviation development fund  |              | (2,235)            | (2,080)            | (1,945)            |
| Ground services and other expenses   |              | (2,845)            | (3,248)            | (5,058)            |
| Fair value changes of financial asset at fair value through profit or loss |              | (27)               |                    |                    |
| Gain/(loss) on fair value changes of derivative financial instruments      | 10           | 311                | (311)              | 2                  |
| Indirect operating expenses  |              | (5,217)            | (4,837)            | (6,051)            |
| <b>Total operating expenses</b>  |              | (112,561)          | (100,525)          | (91,887)           |
| <b>Operating profit</b>  | 11           | 9,309              | 9,431              | 12,486             |
| Share of results of associates   | 22           | 170                | 202                | 148                |
| Share of results of joint ventures   | 23           | 34                 | 49                 | 39                 |
| Finance income   | 12           | 110                | 2,112              | 96                 |
| Finance costs  | 13           | (5,767)            | (3,184)            | (6,272)            |
| <b>Profit before income tax</b>  |              | 3,856              | 8,610              | 6,497              |
| Income tax expense   | 14           | (926)              | (1,800)            | (1,542)            |
| <b>Profit for the year</b>   |              | 2,930              | 6,810              | 4,955              |
| <b>Other comprehensive income for the year</b>                             |              |                    |                    |                    |

|  |    |       |       |       |
|--|----|-------|-------|-------|
| <i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>               |    |       |       |       |
| Cash flow hedges, net of tax   | 25 | 43    | 35    | 107   |
| Fair value changes of available-for-sale investments, net of tax   |    |       | 115   | 40    |
| Share of other comprehensive income of an associate, net of tax  |    |       | 10    | (1)   |
| <b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>                 |    | 43    | 160   | 146   |
| <i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>          |    |       |       |       |
| Fair value changes of equity investments designated at fair value through other comprehensive income, net of tax |    | (247) |       |       |
| Share of other comprehensive income of an associate, net of tax  | 22 | (24)  |       |       |
| Actuarial losses/(gains) on the post-retirement benefit obligations, net of tax                                  | 41 | (115) | 124   | (410) |
| <b>Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>      |    | (386) | 124   | (410) |
| <b>Other comprehensive income for the year, net of tax</b>   |    | (343) | 284   | (264) |
| <b>Total comprehensive income for the year</b>   |    | 2,587 | 7,094 | 4,691 |

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the years ended December 31, 2018, 2017 and 2016

(Amounts in millions except for per share data)

|   | <i>Note</i> | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|---|-------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Profit attributable to:</b>  |             |                                   |                                   |                                   |
| Equity holders of the Company   |             | 2,698                             | 6,342                             | 4,498                             |
| Non-controlling interests   |             | 232                               | 468                               | 457                               |
| <b>Profit for the year</b>  |             | <b>2,930</b>                      | <b>6,810</b>                      | <b>4,955</b>                      |
| <b>Total comprehensive income attributable to:</b>  |             |                                   |                                   |                                   |
| Equity holders of the Company   |             | 2,358                             | 6,619                             | 4,237                             |
| Non-controlling interests   |             | 229                               | 475                               | 454                               |
| <b>Total comprehensive income for the year</b>  |             | <b>2,587</b>                      | <b>7,094</b>                      | <b>4,691</b>                      |
| <b>Earnings per share attributable to the equity holders of the Company during the year</b> |             |                                   |                                   |                                   |
| Basic and diluted (RMB)   | 16          | 0.19                              | 0.44                              | 0.33                              |

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2018 and 2017

(Amounts in millions except for per share data)

|  | <i>Notes</i> | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|--|--------------|-----------------------------------|-----------------------------------|
| <b>Non-current assets</b>  |              |                                   |                                   |
| Property, plant and equipment  | 17           | 180,104                           | 166,856                           |
| Investment properties  | 18           | 724                               | 302                               |
| Prepayments for land use rights  | 19           | 1,387                             | 1,717                             |
| Intangible assets  | 20           | 11,609                            | 11,596                            |
| Advanced payments on acquisition of aircraft   | 21           | 21,942                            | 24,752                            |
| Investments in associates  | 22           | 1,696                             | 1,654                             |
| Investments in joint ventures  | 23           | 577                               | 557                               |
| Available-for-sale investments   | 24           |                                   | 800                               |
| Equity investments designated at fair value through other comprehensive income               | 24           | 1,247                             |                                   |
| Derivative financial instruments   | 25           | 222                               | 151                               |
| Other non-current assets   | 26           | 3,370                             | 2,927                             |
| Deferred tax assets  | 27           | 207                               | 122                               |
|  |              | 223,085                           | 211,434                           |
| <b>Current assets</b>  |              |                                   |                                   |
| Flight equipment spare parts   | 28           | 1,950                             | 2,185                             |
| Trade and notes receivables  | 29           | 1,436                             | 2,124                             |
| Financial asset at fair value through profit or loss   | 30           | 96                                |                                   |
| Prepayments and other receivables  | 31           | 11,776                            | 9,314                             |
| Derivative financial instruments   | 25           | 1                                 |                                   |
| Assets classified as held for sale   | 32           | 11                                | 14                                |
| Restricted bank deposits and short-term bank deposits  | 33           | 16                                | 51                                |
| Cash and cash equivalents  | 34           | 646                               | 4,605                             |
|  |              | 15,932                            | 18,293                            |
| <b>Current liabilities</b>   |              |                                   |                                   |
| Sales in advance of carriage   |              |                                   | 7,043                             |
| Trade and bills payables   | 35           | 4,040                             | 3,184                             |
| Contract liabilities   | 36           | 8,811                             |                                   |
| Other payables and accruals  | 37           | 21,143                            | 19,864                            |
| Current portion of obligations under finance leases  | 38           | 9,364                             | 9,241                             |
| Current portion of borrowings  | 39           | 29,259                            | 39,090                            |
| Income tax payable   |              | 273                               | 593                               |
| Current portion of provision for return condition checks for aircraft under operating leases | 40           | 145                               | 981                               |
| Derivative financial instruments   | 25           | 29                                | 324                               |

|  |                 |                 |
|--|-----------------|-----------------|
| <b>Liabilities directly associated with the assets classified as held for sale</b> |                 | <b>8</b>        |
|  | 73,064          | 80,328          |
| <b>Net current liabilities</b>   | <b>(57,132)</b> | <b>(62,035)</b> |
| <b>Total assets less current liabilities</b>                                       | <b>165,953</b>  | <b>149,399</b>  |

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2018 and 2017

(Amounts in millions except for per share data)

|   | <i>Notes</i> | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---|--------------|-----------------------------------|-----------------------------------|
| <b>Non-current liabilities</b>  |              |                                   |                                   |
| Obligations under finance leases  | 38           | 68,063                            | 57,627                            |
| Borrowings  | 39           | 25,867                            | 24,711                            |
| Provision for return condition checks for aircraft under operating leases | 40           | 2,761                             | 2,038                             |
| Contract liabilities  | 36           | 1,585                             |                                   |
| Derivative financial instruments  | 25           |                                   | 1                                 |
| Post-retirement benefit obligations                                       | 41           | 2,544                             | 2,502                             |
| Other long-term liabilities   | 42           | 3,448                             | 3,724                             |
| Deferred tax liabilities  | 27           | 84                                | 18                                |
|   |              | 104,352                           | 90,621                            |
| <b>Net assets</b>   |              | 61,601                            | 58,778                            |
| <b>Equity</b>   |              |                                   |                                   |
| Equity attributable to the equity holders of the Company                  |              |                                   |                                   |
| Share capital   | 43           | 14,467                            | 14,467                            |
| Reserves  | 44           | 43,541                            | 40,893                            |
|   |              | 58,008                            | 55,360                            |
| <b>Non-controlling interests</b>  |              | 3,593                             | 3,418                             |
| <b>Total equity</b>   |              | 61,601                            | 58,778                            |



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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the years ended December 31, 2018, 2017 and 2016

(Amounts in millions except for per share data)

|  | Attributable to equity holders of the Company |                    |                    |                    | Non-controlling interests | Total equity |
|--|---|--------------------|--------------------|--------------------|---------------------------|--------------|
|  | Share capital                                 | Other reserves     | Retained profits   | Subtotal           |                           |              |
|  | <i>RMB million</i>                            | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |                           |              |
| <b>At January 1, 2016</b>                      | 13,140  | 19,103             | 5,168              | 37,411             | 2,520                     | 39,931       |
| Profit for the year                            |   |                    | 4,498              | 4,498              | 457                       | 4,955        |
| Other comprehensive income                     |   | (261)              |                    | (261)              | (3)                       | (264)        |
| <b>Total comprehensive income for the year</b> |   | (261)              | 4,498              | 4,237              | 454                       | 4,691        |
| Issue of shares                                | 1,327   | 7,213              |                    | 8,540              |                           | 8,540        |
| Interim 2016 dividend                          |   |                    | (738)              | (738)              |                           | (738)        |
| Dividends paid to non-controlling interests    |   |                    |                    |                    | (58)                      | (58)         |
| Transfer from retained profits                 |   | 144                | (144)              |                    |                           |              |
| <b>At December 31, 2016</b>                    | 14,467  | 26,199*            | 8,784*             | 49,450             | 2,916                     | 52,366       |
| Profit for the year                            |   |                    | 6,342              | 6,342              | 468                       | 6,810        |
| Other comprehensive income                     |   | 277                |                    | 277                | 7                         | 284          |
| <b>Total comprehensive income for the year</b> |   | 277                | 6,342              | 6,619              | 475                       | 7,094        |
| Final 2016 dividend                            |   |                    | (709)              | (709)              |                           | (709)        |
| Disposal of a subsidiary                       |   |                    |                    |                    | 87                        | 87           |
| Dividends paid to non-controlling interests    |   |                    |                    |                    | (60)                      | (60)         |
| Transfer from retained profits                 |   | 212                | (212)              |                    |                           |              |
| <b>At December 31, 2017</b>                    | 14,467  | 26,688*            | 14,205*            | 55,360             | 3,418                     | 58,778       |
| Effect of adoption of IFRS9                    |   | 667                | (22)               | 645                |                           | 645          |
| Effect of adoption of IFRS15                   |   |                    | 383                | 383                | 3                         | 386          |
| <b>At January 1, 2018 (restated)</b>           | 14,467  | 27,355             | 14,566             | 56,388             | 3,421                     | 59,809       |
| Profit for the year                            |   |                    | 2,698              | 2,698              | 232                       | 2,930        |
| Other comprehensive income                     |   | (340)              |                    | (340)              | (3)                       | (343)        |
| <b>Total comprehensive income for the year</b> |   | (340)              | 2,698              | 2,358              | 229                       | 2,587        |
| Final 2017 dividend                            |   |                    | (738)              | (738)              |                           | (738)        |

|  |        |         |         |        |       |        |
|--|--------|---------|---------|--------|-------|--------|
| Dividend paid to non-controlling interests |        |         |         |        | (57)  | (57)   |
| Transfer from retained profits             |        | 30      | (30)    |        |       |        |
| <b>At December 31, 2018</b>                | 14,467 | 27,045* | 16,496* | 58,008 | 3,593 | 61,601 |

\* These reserve accounts comprise the consolidated reserves of RMB43,541 million (2017: RMB 40,893 million) in the consolidated statement of financial position.

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the years ended December 31, 2018, 2017 and 2016

(Amounts in millions except for per share data)

|  | <i>Notes</i> | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|--|--------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Cash flows from operating activities</b>                    |              |                                   |                                   |                                   |
| Cash generated from operations                                 | 47(a)        | 24,047                            | 21,108                            | 26,154                            |
| Income tax paid  |              | (1,709)                           | (1,536)                           | (1,261)                           |
| <b>Net cash flows from operating activities</b>                |              | <b>22,338</b>                     | <b>19,572</b>                     | <b>24,893</b>                     |
| <b>Cash flows from investing activities</b>                    |              |                                   |                                   |                                   |
| Additions to property, plant and equipment                     |              | (10,653)                          | (7,796)                           | (21,533)                          |
| Additions to prepayments for land use rights                   |              | (34)                              | (8)                               | (86)                              |
| Additions to intangible assets                                 |              | (165)                             | (126)                             | (232)                             |
| Advanced payments on acquisition of aircraft                   |              | (15,342)                          | (16,759)                          | (16,864)                          |
| Advance from disposal of prepayments for land use rights       |              |                                   | 269                               |                                   |
| Investment in associates                                       |              |                                   | (47)                              |                                   |
| Investment in a joint venture                                  |              | (16)                              | (17)                              |                                   |
| (Net) proceeds from disposal of a subsidiary                   | 46           | (11)                              | 1,897                             |                                   |
| Proceeds from disposal of property, plant and equipment        |              | 5,493                             | 1,043                             | 690                               |
| Proceeds from novation of purchase rights                      |              | 7,483                             |                                   |                                   |
| Proceeds from disposal of assets classified as held for sale   |              |                                   |                                   | 518                               |
| Proceeds from disposal of intangible assets                    |              | 1                                 | 1                                 |                                   |
| Proceeds from disposal of investment in an associate           |              |                                   | 12                                | 12                                |
| Proceeds from disposal of available-for-sale investments       |              |                                   | 5                                 |                                   |
| Proceeds from disposal of prepayments for land use rights      |              | 158                               | 3                                 | 56                                |
| Decrease/(increase) in restricted and short-term bank deposits |              |                                   | 3                                 | (1)                               |
| Interest received  |              | 71                                | 111                               | 96                                |
| Dividends received   |              | 252                               | 97                                | 164                               |
| Settlement relating to derivative financial instruments        |              | 1                                 |                                   |                                   |
| Loan to a joint venture  |              | (20)                              |                                   |                                   |
| Proceeds from repayment of loans to a joint venture            |              | 2                                 |                                   |                                   |
| <b>Net cash flows used in investing activities</b>             |              | <b>(12,780)</b>                   | <b>(21,312)</b>                   | <b>(37,180)</b>                   |
| <b>Cash flows from financing activities</b>                    |              |                                   |                                   |                                   |
| Proceeds from issuance of shares                               |              |                                   |                                   | 8,540                             |
| Proceeds from draw-down of short-term bank loans               |              | 19,144                            | 33,629                            | 39,159                            |
| Proceeds from draw-down of long-term bank loans                |              | 8,000                             |                                   | 7,518                             |
| Proceeds from issuance of short-term debentures                |              | 31,000                            | 29,000                            | 47,500                            |
| Proceeds from issuance of long-term debentures and bonds       |              | 2,938                             | 2,450                             | 12,526                            |
| Proceeds from draw-down of other financing activities          |              | 10,693                            | 12,320                            | 19,027                            |

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|   |                 |              |                |
|---|-----------------|--------------|----------------|
| Repayments of short-term bank loans                         | (36,066)        | (18,383)     | (36,728)       |
| Repayments of long-term bank loans                          | (7,592)         | (3,246)      | (28,803)       |
| Repayments of short-term debentures                         | (26,500)        | (36,000)     | (46,000)       |
| Repayments of long-term debentures and bonds                |                 |              | (5,497)        |
| Repayments of principal of finance lease obligations        | (9,629)         | (10,587)     | (8,606)        |
| Interest paid   | (4,359)         | (3,706)      | (3,206)        |
| Settlement relating to derivative financial instruments     | (392)           |              |                |
| Dividends paid  | (738)           | (709)        | (738)          |
| Dividends paid to non-controlling interests of subsidiaries | (57)            | (60)         | (58)           |
| <b>Net cash flows (used in)/from financing activities</b>   | <b>(13,558)</b> | <b>4,708</b> | <b>4,634</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(4,000)</b>  | <b>2,968</b> | <b>(7,653)</b> |
| Cash and cash equivalents at beginning of year              | 4,616           | 1,695        | 9,080          |
| Effect of foreign exchange rate changes, net                | 30              | (47)         | 268            |
| <b>Cash and cash equivalents at December 31</b>             | <b>646</b>      | <b>4,616</b> | <b>1,695</b>   |

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## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 1 CORPORATE AND GROUP INFORMATION

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

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

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

These financial statements were approved and authorized for issue by the Company's Board of Directors (the Board) on March 28, 2019.

Information about subsidiaries

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

| Name  | Place and date of incorporation/ registration and place of business | Issued ordinary/ registered share capital<br><i>million</i> | Percentage of equity attributable to the Company |          | Principal activities                  |
|---|---|---|--|----------|---------------------------------------|
|   |   |   | Direct   | Indirect |                                       |
| China Eastern Airlines Jiangsu Co., Ltd. (CEA Jiangsu)                | PRC/Mainland China  |   |  |          | Provision of airline services         |
|   | April 7, 1993   | RMB2,000  | 62.56%   |          |                                       |
| China Eastern Airlines Wuhan Co., Ltd. (CEA Wuhan)                    | PRC/Mainland China  |   |  |          | Provision of airline services         |
|   | August 16, 2002   | RMB1,750  | 60%  |          |                                       |
| Shanghai Eastern Flight Training Co., Ltd. (Shanghai Flight Training) | PRC/Mainland China  | RMB694  | 100%   |          | Provision of flight training services |

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|  |  |          |        |   |
|--|--|----------|--------|---|
|  | December 18, 1995                        |          |        |   |
| Shanghai Airlines Co., Ltd. ( Shanghai Airlines )  | PRC/Mainland China                       |          |        | Provision of airline services   |
| China Eastern Airlines Technology Co., Ltd. ( Eastern Technology )                                 | March 16, 2010<br>PRC/Mainland China     | RMB500   | 100%   | Provision of airline maintenance services   |
| China Eastern Business Jet Co., Ltd.   | November 19, 2014<br>PRC/Mainland China  | RMB4,300 | 100%   | Provision of business aviation services   |
| China Eastern Airlines Yunnan Co., Ltd. ( CEA Yunnan )   | September 27, 2008<br>PRC/Mainland China | RMB50    | 100%   | Provision of airline services   |
| Eastern Air Overseas (Hong Kong) Co., Ltd. ( Eastern Air Overseas )                                | August 2, 2011<br>Hong Kong              | RMB3,662 | 90.36% | Provision of import and export, investment, leasing and consultation services             |
| China United Airlines Co., Ltd. ( China United Airlines )  | June 10, 2011<br>PRC/Mainland China      | HKD280   | 100%   | Provision of airline services   |
| Eastern Airlines Hotel Co., Ltd.   | September 21, 1984<br>PRC/Mainland China | RMB1,320 | 100%   | Provision of hotel services primarily to crew   |
| Shanghai Airlines Tours International (Group) Co., Ltd. ( Shanghai Airlines Tours )                | March 18, 1998<br>PRC/Mainland China     | RMB70    | 100%   | Tour operations, travel and air ticketing agency and transportation                       |
| China Eastern Airlines Application Development Center Co., Ltd. ( Application Development Center ) | August 29, 1992<br>PRC/Mainland China    | RMB50    | 100%   | Provision of research and development of technology and products in the field of aviation |
| China Eastern Airlines E-Commerce Co., Ltd. ( Eastern E-Commerce )                                 | November 21, 2011<br>PRC/Mainland China  | RMB498   | 100%   | E-commerce platform and ticket agent  |
|  | December 1, 2014                         | RMB50    | 100%   |   |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries of the Company listed above are limited liability companies.

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## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRSs ) issued by the International Accounting Standards Board ( IASB ) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and derivative financial instruments which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ( RMB ) and all values are rounded to the nearest million except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.



If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Going concern

As at December 31, 2018, the Group's current liabilities exceeded its current assets by approximately RMB57.13 billion. In preparing the financial statements, the Board has conducted a detailed review over the Group's going concern ability based on the current financial situation. The Board has considered the Group's available sources of funds as follows:

The Group's expected net cash inflows from operating activities in 2019;

Unutilized banking facilities of approximately RMB56.20 billion as at December 31, 2018; and

Other available sources of financing from banks and other financial institutions given the Group's credit history.

The Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

|  |  |
|--|--|
| Amendments to IFRS 2                                 | <i>Classification and Measurement of Share-based Payment Transactions</i>    |
| Amendments to IFRS 4                                 | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> |
| IFRS 9   | <i>Financial Instruments</i>   |
| IFRS 15  | <i>Revenue from Contracts with Customers</i>                                 |
| Amendments to IFRS 15                                | <i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>       |
| Amendments to IAS 40                                 | <i>Transfers of Investment Property</i>                                      |
| IFRIC 22   | <i>Foreign Currency Transactions and Advance Consideration</i>               |
| <i>Annual Improvements</i><br><i>2014-2016 Cycle</i> | Amendments to IFRS 1 and IAS 28  |

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognized the transition adjustments against the applicable opening balances in equity at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

*Classification and measurement*

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses (ECLs).

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at January 1, 2018 is as follows:

| Notes | IAS 39   |                | Re-<br>classification | ECL            | Remea-<br>surement | IFRS 9         |          |
|-------|----------|----------------|-----------------------|----------------|--------------------|----------------|----------|
|       | Category | Amount         |                       |                |                    | Amount         | Category |
|       |          | <i>RMB</i>     | <i>RMB</i>            | <i>RMB</i>     | <i>RMB</i>         | <i>RMB</i>     |          |
|       |          | <i>million</i> | <i>million</i>        | <i>million</i> | <i>million</i>     | <i>million</i> |          |

Financial assets

|  |       |                   |       |       |       | FVOCI <sup>1</sup> |
|--|-------|-------------------|-------|-------|-------|--------------------|
| Equity investments designated at fair value through other comprehensive income     |       | N/A               |       | 677   | 895   | 1,572 (equity)     |
| From: Available-for-sale investments   | (i)   |                   |       | 677   |       |                    |
| Available-for-sale investments   |       | AFS <sup>2</sup>  | 800   | (800) |       | N/A                |
| To: Equity investments designated at fair value through other comprehensive income | (i)   |                   |       | (677) |       |                    |
| To: Financial assets at fair value through profit or loss                          | (ii)  |                   |       | (123) |       |                    |
| Financial assets at fair value through profit or loss                              |       | FVPL <sup>5</sup> |       | 123   | 123   | FVPL               |
| From: Available-for-sale investments   | (ii)  |                   |       | 123   |       |                    |
| Trade and notes receivables  | (iii) | L&R <sup>3</sup>  | 2,124 | (31)  | 2,093 | AC <sup>4</sup>    |
| Total assets   |       |                   | 2,924 | (31)  | 895   | 3,788              |
| <b>Other liabilities</b>   |       |                   |       |       |       |                    |
| Deferred tax liabilities   |       |                   | 18    | (8)   | 224   | 234                |
| Total liabilities  |       |                   | 18    | (8)   | 224   | 234                |

<sup>1</sup> FVOCI: Financial assets at fair value through other comprehensive income

<sup>2</sup> AFS: Available-for-sale investments

<sup>3</sup> L&R: Loans and receivables

<sup>4</sup> AC: Financial assets or financial liabilities at amortized cost

<sup>5</sup> FVPL: Financial assets at fair value through profit or loss

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) (continued)

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.
- (ii) The Group has classified certain of its tradable listed equity investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss.
- (iii) The carrying amounts of the trade and notes receivables under the column IAS 39 measurement Amount represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(b) to the financial statements.

*Impairment*

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

Further details are disclosed in note 29 to the financial statements.

|                             | Impairment allowances<br>under IAS 39<br>at December 31 2017<br><i>RMB million</i> | Re-measurement<br><i>RMB<br/>million</i> | ECL allowances<br>under IFRS<br>9<br>at January 1, 2018<br><i>RMB<br/>million</i> |
|-----------------------------|--|--|---|
| Trade and notes receivables | 88   | 31                                       | 119   |

*Impact on reserves and retained profits*

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

|  | Reserves and retained profits<br>RMB million |
|--|--|
| <u>Fair value reserve under IFRS 9</u>   |  |
| <u>(available-for-sale investment revaluation reserve under IAS 39)</u>  |  |
| Balance as at December 31, 2017 under IAS 39   | 391  |
| Reclassification of a financial asset from available-for-sale investment to financial asset at fair value through profit or loss         | (1)  |
| Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39 | 895  |
| Deferred tax in relation to the above  | (224)  |
| Non-controlling interests in relation to the above   | (3)  |
| Balance as at January 1, 2018 under IFRS 9   | 1,058  |
| <u>Retained profits</u>  |  |
| Balance as at December 31, 2017 under IAS 39   | 14,205                                       |
| Reclassification of a financial asset from available-for-sale investment to financial asset at fair value through profit or loss         | 1  |
| Recognition of expected credit losses for trade receivables under IFRS 9   | (31)   |
| Deferred tax in relation to the above  | 9  |
| Balance as at January 1, 2018 under IFRS 9   | 14,183                                       |

- (b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(b) (continued)

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at January 1, 2018.

The cumulative effect of the initial application of IFRS 15 was recognized as an adjustment to the opening balance of retained profits as at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at January 1, 2018 as a result of the adoption of IFRS 15:

|                              | Notes               | Increase/(decrease)<br>RMB million |
|------------------------------|---------------------|------------------------------------|
| <b>Liabilities</b>           |                     |                                    |
| Sales in advance of carriage | (i)                 | (7,043)                            |
| Other payables and accruals  | (i)                 | (1,210)                            |
| Other long-term liabilities  | (i)                 | (1,525)                            |
| Contract liabilities         | (i),(ii),(iii),(iv) | 9,267                              |
| Deferred tax liabilities     | (v)                 | 128                                |
| <b>Total liabilities</b>     |                     | <b>(383)</b>                       |
| <b>Equity</b>                |                     |                                    |
| Retained profits             | (ii),(iii),(iv),(v) | 383                                |
| <b>Total equity</b>          |                     | <b>383</b>                         |

Set out below are the amounts by which each financial statement line item was affected as at December 31, 2018 and for the year ended December 31, 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended December 31, 2018:

|   |                 | Amounts prepared under |                |                |
|---|-----------------|------------------------|----------------|----------------|
|   |                 | IFRS 15                | Previous       | Increase/      |
|   |                 | <i>RMB</i>             | <i>IFRS</i>    | (decrease)     |
|   |                 | <i>million</i>         | <i>million</i> | <i>RMB</i>     |
|   | Notes           |                        |                | <i>million</i> |
| Revenue   | (ii),(iii),(iv) | 115,278                | 115,000        | 278            |
| Operating profit  |                 | 9,309                  | 9,031          | 278            |
| Profit before income tax  |                 | 3,856                  | 3,578          | 278            |
| Income tax expense  | (v)             | (926)                  | (856)          | (70)           |
| Profit for the year   |                 | 2,930                  | 2,722          | 208            |
| Profit attributable to:   |                 |                        |                |                |
| Equity holders of the Company   |                 | 2,698                  | 2,492          | 206            |
| Non-controlling interests   |                 | 232                    | 230            | -2             |
|   |                 | 2,930                  | 2,722          | 208            |
| Earnings per share attributable to the equity holders<br>of the Company during the year |                 |                        |                |                |
| - Basic and diluted (RMB)   |                 | 0.19                   | 0.17           | 0.02           |

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(b) (continued)

Consolidated statement of financial position as at December 31, 2018:

|                              | Notes               | Amounts prepared under                  |  |   |
|------------------------------|---------------------|---|--|---|
|                              |                     | IFRS 15<br><i>RMB</i><br><i>million</i> | Previous<br>IFRS<br><i>RMB</i><br><i>million</i> | Increase/<br>(decrease)<br><i>RMB</i><br><i>million</i> |
| Sales in advance of carriage | (i)                 |   | 8,559  | (8,559)   |
| Other payables and accruals  | (i)                 | 21,143                                  | 21,968   | (825)   |
| Other long-term liabilities  | (i)                 | 3,448                                   | 5,249  | (1,801)   |
| Contract liabilities         | (i),(ii),(iii),(iv) | 10,396                                  |  | 10,396  |
| Income tax payable           | (v)                 | 273                                     | 75   | 198   |
| Total liabilities            |                     | 177,416                                 | 178,007  | (591)   |
| Net assets                   |                     | 61,601                                  | 61,010   | 591   |
| Retained profits             | (ii),(iii),(iv),(v) | 16,496                                  | 15,905   | 591   |
| Non-controlling interests    | (v)                 | 58,008                                  | 58,006   | 2   |
| Total equity                 |                     | 61,601                                  | 61,008   | 593   |

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the statement of financial position as at December 31, 2018 and the statement of profit or loss for the year ended December 31, 2018 are described below:

## (iv) Reclassification

Before the adoption of IFRS 15, the Group recognized consideration received from customers in advance of carriage as sales in advance of carriage, and frequent flyer program liabilities and other consideration received from customers as other payables and accruals and other long-term liabilities. Under IFRS 15, the amounts are classified as contract liabilities. Therefore, upon the adoption of IFRS 15, the Group reclassified RMB7,043 million, RMB1,210 million and RMB1,525 million from sales in advance of carriage, other payables and accruals and other long-term liabilities, respectively, to contract liabilities as at January 1, 2018.

As at December 31, 2018, under IFRS 15, RMB8,559 million, RMB825 million and RMB1,801 million from sales in advance of carriage, other payables and accruals and other long-term liabilities respectively were reclassified to contract liabilities.



(ii) Frequent flyer program

Prior to the adoption of IFRS 15, the Group used the residual method to allocate a portion of ticket sales to the mileage points issued in connection with the flights, which were valued based on the estimated redemption value. Revenue is recognized when the miles have been redeemed and used or for miles that expire unused at the expiration date. IFRS 15 requires the Group to apply relative stand-alone selling price approach to allocate a portion of sales to the mileage points issued and recognizes frequent flyer program liabilities under contract liabilities. Accordingly, there was an increase in retained profits of RMB33 million before tax effect as at January 1, 2018.

Considering the relative stand-alone selling price approach used for recognizing frequent flyer program liabilities, revenue was increased by RMB113 million for the year ended December 31, 2018 and there was an increase in retained profits of RMB146 million before tax effect as at December 31, 2018.

(iii) Passenger ticket breakage

Passenger ticket breakage refers to the tickets that will expire unused. Prior to the adoption of IFRS 15, the Group recognized revenue from the ticket breakage upon expiration of the ticket. Under IFRS 15, the Group estimates the value of passenger ticket breakage and recognizes revenue at the scheduled flight date. Accordingly, there was an increase in retained profits of RMB509 million before tax effect as at January 1, 2018.

Considering the change in timing of revenue recognition for the passenger ticket breakage, revenue was increased by RMB178 million for the year ended December 31, 2018 and there was an increase in retained profits of RMB687 million before tax effect as at December 31, 2018.

(iv) Change fees

The Group charges customers to make changes to air tickets. The process of changing the customer's itinerary generally will be regarded as a contract modification under IFRS 15 instead of recognizing in other revenue at the time when ticket is changed under the legacy guidance. Under IFRS 15, change fees are recognized in passenger revenue when transportation is provided. Accordingly, there was a decrease in retained profits of RMB31 million before tax effect as at January 1, 2018.

Considering the change in timing of revenue recognition for change fees, revenue was decreased by RMB13 million for the year ended December 31, 2018 and there was a decrease in retained profits of RMB44 million before tax effect as at December 31, 2018.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

(v) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax and non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

|  |  |
|--|--|
| Amendments to IFRS 3                           | <i>Definition of a Business</i> <sup>2</sup>   |
| Amendments to IFRS 9                           | <i>Prepayment Features with Negative Compensation</i> <sup>1</sup>   |
| Amendments to IFRS 10<br>and IAS 28            | Sale or Contribution of Assets between an Investor and its Associate<br><i>or Joint Venture</i> <sup>4</sup>                           |
| IFRS 16  | <i>Leases</i> <sup>1</sup>   |
| IFRS 17  | <i>Insurance Contracts</i> <sup>3</sup>  |
| Amendments to IAS 1 and IAS 8                  | <i>Definition of Material</i> <sup>2</sup>   |
| Amendments to IAS 19                           | <i>Plan Amendment, Curtailment or Settlement</i> <sup>1</sup>  |
| Amendments to IAS 28<br><i>IFRIC 23</i>        | <i>Long-term Interests in Associates and Joint Ventures</i> <sup>1</sup><br><i>Uncertainty over Income Tax Treatments</i> <sup>1</sup> |
| <i>Annual Improvements<br/>2015-2017 Cycle</i> | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 <sup>1</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2019

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2020

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about these IFRSs that are expected to be applicable to the Group is described below:

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the

assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from January 1, 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees' leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

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### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

#### Transition to IFRS 16

The Group plans to adopt the transitional provisions in IFRS 16 to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured differently between lease contracts related to aircraft and other assets.

For lease contracts related to aircraft, the right-of-use asset will be recognized at its carrying amount as if the standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; For lease contracts related to other assets, the right-of-use asset will be recognized at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has assessed the impact of the adoption of IFRS 16 and is currently in the process of completing the analysis. The adoption of this standard will have a significant impact on the consolidated statement of financial position as the new standard will require all leases with durations greater than twelve months to be recognized on the balance sheet.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from January 1, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of

the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognizing losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on January 1, 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on January 1, 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as uncertain tax positions). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from January 1, 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments in associates and joint ventures (continued)

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

#### Segmental reporting

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

#### Foreign currencies

(i) Functional currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within finance income or finance costs.

Revenue recognition (applicable from January 1, 2018)

*Revenue from contracts with customers*

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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NOTES TO THE FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from January 1, 2018) (continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

- (a) Passenger, cargo and mail revenues are recognized as traffic revenue when the transportation is provided or when ticket breakage occurs. The value of sold but unused tickets is included in contract liabilities as sales in advance of carriage ( SIAC ). The Group estimates the value of passenger ticket breakage based on historical trends and experience and recognizes revenue at the scheduled flight date.
- (b) Revenues from the provision of ground services, tour services, ticket cancellation services and other travel related services are recognized when the services are rendered.
- (c) Commission income represents amounts earned from other carriers in respect of sales made by the Group on their behalf, and is recognized upon ticket sales.
- (d) The Group operates a frequent flyer program called Eastern Miles that provides mainly travel awards to program members based on accumulated mileage. A portion of revenue attributable to the award of frequent flyer benefits is deferred until they are utilized. The Group applies the relative standalone selling price approach to allocate a portion of sales to the mileage points issued and recognizes in contract liabilities as frequent flyer program liabilities. The portion of sales attributable to the award of frequent flyer benefits is calculated based on the estimated fair values of the unredeemed award credits and expected redemption rate, which is deferred until they are utilized and expired.



(e) Sale of goods

Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer.

*Revenue from other sources*

Rental income is recognized on a time proportion basis over the lease terms.

*Other income*

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities (applicable from January 1, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (applicable before January 1, 2018)

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

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

(i) Traffic revenues

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

(ii) Ground service income and tour operation revenues

Revenues from the provision of ground services, tour, travel services and other travel related services are recognized when the services are rendered.

(iii) Cargo handling income

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

(iv) Commission income

Commission income represents amounts earned from other carriers in respect of sales made by the Group on their behalf, and is recognized in profit or loss upon ticket sales.

(v) Other revenue

Revenues from other operating businesses, including income derived from the provision of freight forwarding, are recognized when the services are rendered.

(vi) Frequent flyer program

The Group operates a frequent flyer program that provide travel awards to program members based on accumulated miles. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired.

(vii) Interest income

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

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs that meet specific recognition criteria are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles.

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

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### Intangible assets

##### (i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (continued)

##### (i) Goodwill (continued)

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

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

##### (ii) Computer software costs

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

##### (iii) Others

Others relate to the capitalized costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights taking off/landing) in Guangzhou Baiyun International Airport Co., Ltd. and Shanghai Pudong International Airport, respectively. These costs are amortized using the straight-line method over their useful lives of 3 years.

#### Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the costs borne by the Group in connection with securing a certain minimum period of employment of pilots and are amortized on a straight-line basis over the anticipated beneficial

period of 5 years, starting from the date the pilot joins the Group.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers of the post-employment benefit plan;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.





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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for Non-current assets and disposal groups held for sale. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

|   |                |
|---|----------------|
| Owned and finance leased aircraft and engines | 15 to 20 years |
| Other flight equipment, including rotables    | 10 years       |
| Buildings                                     | 8 to 45 years  |
| Other property, plant and equipment           | 3 to 20 years  |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives are as follows:

|           |                |
|-----------|----------------|
| Buildings | 30 to 35 years |
|-----------|----------------|

The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of the retirement or disposal.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

#### Prepayments for land use rights

Prepayments for land use rights under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

#### Advanced payments on acquisition of aircraft

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

#### Flight equipment spare parts

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

Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for Revenue recognition (applicable from January 1, 2018) below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at amortized cost (debt instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

##### *Financial assets at fair value through other comprehensive income (debt instruments)*

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner

as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before January 1, 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as

defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for Revenue recognition (applicable before January 1, 2018) below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (policies under IAS 39 applicable before January 1, 2018) (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognized in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income.

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

Derecognition of financial assets (policies under IFRS 9 applicable from January 1, 2018 and policies under IAS 39 applicable before January 1, 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

the rights to receive cash flows from the asset have expired; or

the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018)

The Group recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2

Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018) (continued)

##### *Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### Impairment of financial assets (policies under IAS 39 applicable before January 1, 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. Significant is evaluated against the original cost of the investment and prolonged against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments, obligations under finance leases and borrowings.

##### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

##### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

##### *Financial guarantee contracts (policies under IFRS 9 applicable from January 1, 2018)*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in Impairment of financial assets (policies under IFRS 9 applicable from January 1, 2018) ; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

*Financial guarantee contracts (policies under IAS 39 applicable before January 1, 2018)*

A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

Derecognition of financial liabilities (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018) (continued)

*Initial recognition and subsequent measurement (continued)*

For the purpose of hedge accounting, hedges are classified as:

fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or

cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment; or

hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before January 1, 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

There is an economic relationship between the hedged item and the hedging instrument.

The effect of credit risk does not dominate the value changes that result from that economic relationship.

The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018) (continued)

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

#### *Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

#### Provisions

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

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

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

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognized and measured as a provision.

#### Leases

- (i) As lessee

##### *Finance leases*

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

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

For sale and leaseback transactions resulting in a finance lease, the Group continues to recognize the transferred asset and recognize a financial liability equal to the transfer proceeds.

#### *Operating leases*

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

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

#### (ii) As lessor

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

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Retirement benefits

##### (i) Defined contribution plans

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

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees' total salaries and are charged to profit or loss as incurred.

##### (ii) Defined benefit plan

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

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

the date of the plan amendment or curtailment; and

the date that the Group recognizes restructuring-related costs

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

service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

net interest expense

#### Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed final dividends are disclosed in the notes to the financial statements.

#### Fair value measurement

The Group measures its derivative financial instruments and listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.





## NOTES TO THE FINANCIAL STATEMENTS

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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**NOTES TO THE FINANCIAL STATEMENTS**

(Prepared in accordance with International Financial Reporting Standards)

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**3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

**(a) Passenger ticket breakage**

The Group recognizes traffic revenues in accordance with the accounting policy stated in note 2.4 to the financial statements. Passenger ticket breakage is recognized as revenue based on estimates. The Group estimates the value of passenger ticket breakage, reduces contract liabilities and recognizes revenue at the scheduled flight date using a portfolio based approach. The breakage rate is estimated and constrained by reference to the historical trend of passenger ticket breakage.

**(b) Frequent flyer program ( FFP )**

Passenger ticket sales earning mileage credits under the Company's FFP provide customers with mileage credits earned and air transportation. The portion of sales attributable to the award of frequent flyer benefits is allocated applying a relative standalone selling price approach. The Group estimates the standalone fair value of the mileage credits by reference to the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ( ETV ). The estimate of ETV is adjusted for mileage credits that are not likely to be redeemed ( mileage credits breakage ). Management uses models to estimate breakage based on historical redemption patterns and unredeemed information. A change in assumptions as to the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on the revenue in the year in which the change occurs and in future years.

Mileage credits breakage is recognized as revenue proportionally during the year in which the remaining mileage credits are actually redeemed.

**(c) Provision for return condition checks for aircraft and engines under operating leases**

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

**(d) Retirement benefits**

The Group operates and maintains a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employee's service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in note 2.4 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in note 41 to the financial statements.

**(e) Deferred income tax**

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in note 2.4 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of deductible tax losses carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

**(f) Provision for flight equipment spare parts**

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and the Company's future operation plan for the aircraft and related spare parts. The net realizable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

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NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

**(g) Depreciation of property, plant and equipment**

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

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

**(h) Estimated impairment of property, plant and equipment and intangible assets**

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in note 2.4 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates.

**(i) Impairment of goodwill**

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

**(j) Fair value of unlisted equity investments**

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 51 to the financial statements. The valuation requires the Group to determine the comparable companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value hierarchy of these investments as Level 3.

4 OPERATING SEGMENT INFORMATION

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

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

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

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the PRC Accounting Standards), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenues and profit before income tax, arising from different accounting policies are set out in Note 4(c) below.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 4 OPERATING SEGMENT INFORMATION (continued)

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

The segment results for the year ended December 31, 2018 were as follows:

|   | <b>Airline<br/>transportation<br/>operations<br/>RMB<br/>million</b> | <b>Other<br/>segments<br/>RMB million</b> | <b>Eliminations<br/>RMB million</b> | <b>Unallocated*<br/>RMB million</b> | <b>Total<br/>RMB million</b> |
|---|--|---|-------------------------------------|-------------------------------------|------------------------------|
| <b>Segment revenue</b>                      |  |   |                                     |                                     |                              |
| Reportable segment revenue                  |  |   |                                     |                                     |                              |
| From external customers                     | 112,228  | 2,702                                     |                                     |                                     | 114,930                      |
| Inter-segment sales                         |  | 1,425                                     | (1,425)                             |                                     |                              |
| Reportable segment revenue                  | 112,228  | 4,127                                     | (1,425)                             |                                     | 114,930                      |
| Reportable segment profit before income tax | 2,360  | 958                                       |                                     | 549                                 | 3,867                        |
| <b>Other segment information</b>            |  |   |                                     |                                     |                              |
| Depreciation and amortization               | 15,051   | 251                                       |                                     |                                     | 15,302                       |
| Impairment charges                          | 338  | 7   |                                     |                                     | 345                          |
| Interest income                             | 127  | 398                                       | (415)                               |                                     | 110                          |
| Interest expense                            | 3,807  | 335                                       | (415)                               |                                     | 3,727                        |
| Capital expenditure                         | 30,670   | 508                                       |                                     |                                     | 31,178                       |

The segment results for the year ended December 31, 2017 were as follows:

|  | <b>Airline<br/>transportation<br/>operations<br/>RMB<br/>million</b> | <b>Other<br/>segments<br/>RMB million</b> | <b>Eliminations<br/>RMB<br/>million</b> | <b>Unallocated*<br/>RMB<br/>million</b> | <b>Total<br/>RMB million</b> |
|--|--|---|---|---|------------------------------|
|--|--|---|---|---|------------------------------|

| <b>Segment revenue</b>                             |        |       |         |         |
|--|--------|-------|---------|---------|
| Reportable segment revenue from external customers | 97,698 | 4,023 |         | 101,721 |
| Inter-segment sales                                |        | 1,018 | (1,018) |         |
| Reportable segment revenue                         | 97,698 | 5,041 | (1,018) | 101,721 |
| Reportable segment profit before income tax        | 6,517  | 363   | 1,740   | 8,620   |
| <b>Other segment information</b>                   |        |       |         |         |
| Depreciation and amortization                      | 13,769 | 190   |         | 13,959  |
| Impairment charges                                 | 489    | 2     |         | 491     |
| Interest income                                    | 109    | 103   | (101)   | 111     |
| Interest expense                                   | 3,080  | 205   | (101)   | 3,184   |
| Capital expenditure                                | 32,149 | 657   |         | 32,806  |

The segment results for the year ended December 31, 2016 were as follows:

|  | <b>Airline<br/>transportation<br/>operations<br/>RMB<br/>million</b> | <b>Other<br/>segments<br/>RMB<br/>million</b> | <b>Eliminations<br/>RMB<br/>million</b> | <b>Unallocated*<br/>RMB<br/>million</b> | <b>Total<br/>RMB<br/>million</b> |
|--|--|---|---|---|----------------------------------|
| <b>Segment revenue</b>                             |  |   |   |   |                                  |
| Reportable segment revenue from external customers | 94,338   | 4,222   |   |   | 98,560                           |
| Inter-segment sales                                |  | 782   | (782)                                   |   |                                  |
| Reportable segment revenue                         | 94,338   | 5,004   | (782)                                   |   | 98,560                           |
| Reportable segment profit before income tax        | 5,788  | 397   |   | 322                                     | 6,507                            |
| <b>Other segment information</b>                   |  |   |   |   |                                  |
| Depreciation and amortization                      | 12,378   | 160   |   |   | 12,538                           |
| Impairment charges                                 | 22   | 7   |   |   | 29                               |
| Interest income                                    | 100  | 100   | (104)                                   |   | 96                               |
| Interest expense                                   | 2,553  | 280   | (104)                                   |   | 2,729                            |
| Capital expenditure*                               | 34,631   | 776   |   |   | 35,407                           |

\* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets and long-term deferred assets.



## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

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## 4 OPERATING SEGMENT INFORMATION (continued)

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

The segment assets and liabilities as at December 31, 2018 and December 31, 2017 were as follows:

|                                | <b>Airline<br/>transportation<br/>operations<br/>RMB<br/>million</b> | <b>Other<br/>segments<br/>RMB million</b> | <b>Eliminations<br/>RMB<br/>million</b> | <b>Unallocated*<br/>RMB<br/>million</b> | <b>Total<br/>RMB million</b> |
|--------------------------------|--|---|---|---|------------------------------|
| <b>At December 31, 2018</b>    |  |   |   |   |                              |
| Reportable segment assets      | 221,208  | 19,255                                    | (7,543)                                 | 3,845                                   | 236,765                      |
| Reportable segment liabilities | 168,095  | 16,748                                    | (7,543)                                 | 113                                     | 177,413                      |
| <b>At December 31, 2017</b>    |  |   |   |   |                              |
| Reportable segment assets      | 216,591  | 13,376                                    | (5,514)                                 | 3,011                                   | 227,464                      |
| Reportable segment liabilities | 165,148  | 11,301                                    | (5,514)                                 | 11                                      | 170,946                      |

\* Unallocated assets primarily represent investments in associates and joint ventures, derivative financial instruments, equity investments designated at fair value through other comprehensive income and financial asset at fair value through profit or loss. Unallocated results primarily represent the share of results of associates and joint ventures, fair value changes of derivative financial instruments, fair value changes of financial asset at fair value through profit or loss and dividend income relating to equity investments.

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

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

- 1) Traffic revenue from services within Mainland China (the PRC excluding the Hong Kong Special Administrative Region ( Hong Kong ), Macau Special Administrative Region ( Macau ) and Taiwan, collectively known as Regional ) is classified as domestic operations. Traffic revenue from inbound

and outbound services between overseas markets excluding Regional is classified as international operations.

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

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | 76,517             | 67,923             | 63,730             |
| International   | 34,744             | 3,624              | 3,516              |
| Regional (Hong Kong, Macau and Taiwan)                    | 4,017              | 30,928             | 31,658             |
| Total   | 115,278            | 102,475            | 98,904             |

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

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

|   | <i>Note</i> | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|-------------|--------------------|--------------------|--------------------|
|   |             | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| <b>Revenue</b>  |             |                    |                    |                    |
| Reportable segment revenue                                  |             | 114,930            | 101,721            | 98,560             |
| - Reclassification of expired sales in advance of carriage  | (i)         |                    | 357                | 275                |
| - Reclassification of taxes relating to the expired tickets | (i)         | 348                | 397                | 69                 |
| Consolidated revenue  |             | 115,278            | 102,475            | 98,904             |

## NOTES TO THE FINANCIAL STATEMENTS

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## 4 OPERATING SEGMENT INFORMATION (continued)

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

|  | <i>Note</i>  | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|--|--------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Profit before income tax</b>  |              |                                   |                                   |                                   |
| Reportable segment profit before income tax  |              | 3,867                             | 8,620                             | 6,507                             |
| - Differences in depreciation charges for aircraft and engines due to different depreciation lives | (ii)         | (11)                              | (10)                              | (10)                              |
| Consolidated profit before income tax  |              | 3,856                             | 8,610                             | 6,497                             |
|  | <i>Notes</i> |                                   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
| <b>Assets</b>  |              |                                   |                                   |                                   |
| Reportable segment assets  |              |                                   | 236,765                           | 227,464                           |
| - Differences in depreciation charges for aircraft and engines due to different depreciation lives | (ii)         |                                   | 10                                | 21                                |
| - Difference in intangible asset arising from the acquisition of Shanghai Airlines                 | (iii)        |                                   | 2,242                             | 2,242                             |
| Consolidated assets  |              |                                   | 239,017                           | 229,727                           |
|  |              |                                   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
| <b>Liabilities</b>   |              |                                   |                                   |                                   |
| Reportable segment liabilities   |              |                                   | 177,413                           | 170,946                           |
| - Others   |              |                                   | 3                                 | 3                                 |
| Consolidated liabilities   |              |                                   | 177,416                           | 170,949                           |

Notes:

- (i) The difference for 2017 and 2016 represents the different classification of expired sales in advance of carriage and sales related taxes and only the sales related taxes for 2018 under the PRC Accounting Standards and IFRSs.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purposes in prior years under the PRC Accounting Standards and IFRSs. Despite the depreciation policies of these assets which have been unified under IFRSs and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which result in the differences in the carrying amounts and related depreciation charges under IFRSs and the PRC Accounting Standards.
- (iii) The difference represents the different measurement of the fair value of acquisition cost of the shares from Shanghai Airlines between the PRC Accounting standards and IFRSs, which results in the different measurement of goodwill.

## 5 REVENUES

An analysis of revenue is as follows:

|                                       | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---------------------------------------|--------------------|--------------------|--------------------|
|                                       | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Revenue from contracts with customers | 115,210            |                    |                    |
| Traffic revenues                      |                    | 95,187             | 89,554             |
| - Passenger                           |                    | 91,564             | 83,577             |
| - Cargo and mail                      |                    | 3,623              | 5,977              |
| Tour operations income                |                    | 2,322              | 3,113              |
| Ground service income                 |                    | 1,323              | 2,850              |
| Cargo handling and processing income  |                    | 69                 | 794                |
| Commission income                     |                    | 112                | 92                 |
| Others                                |                    | 3,423              | 2,464              |
| <i>Revenue from other sources</i>     |                    |                    |                    |
| Rental income                         | 68                 | 39                 | 37                 |
|                                       | 115,278            | 102,475            | 98,904             |

## NOTES TO THE FINANCIAL STATEMENTS

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December 31, 2018

## 5 REVENUES (continued)

**Revenue from contracts with customers**(i) Disaggregated revenue information  
For the year ended December 31, 2018

| Segments  | Airline<br>transportation<br>operations<br><i>RMB<br/>million</i> | Other<br>operations<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|---|---|---|-----------------------------|
| <b>Type of goods or service</b>                           |   |   |                             |
| Traffic revenues  |   |   |                             |
| - Passenger   | 104,309   |   | 104,309                     |
| - Cargo and mail  | 3,627   |   | 3,627                       |
| Tour operations income                                    |   | 2,173                                     | 2,173                       |
| Ground service income                                     | 1,211   |   | 1,211                       |
| Commission income   | 101   |   | 101                         |
| Ticket cancellation fee                                   | 2,098   |   | 2,098                       |
| Others  | 1,162   | 529                                       | 1,691                       |
| Total revenue from contracts with customers               | 112,508   | 2,702                                     | 115,210                     |
| <b>Geographical markets</b>                               |   |   |                             |
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | 73,747  | 2,702                                     | 76,449                      |
| International   | 34,744  |   | 34,744                      |
| Regional (Hong Kong, Macau and Taiwan)                    | 4,017   |   | 4,017                       |
| Total revenue from contracts with customers               | 112,508   | 2,702                                     | 115,210                     |

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

**For the year ended December 31, 2018**

| Segments   | Airline<br>transportation<br>operations<br><i>RMB<br/>million</i> | Other<br>operations<br><i>RMB<br/>million</i> | Total<br><i>RMB<br/>million</i> |
|--|---|---|---------------------------------|
| <b>Revenue from contracts with customers</b>       |   |   |                                 |
| External customers                                 | 112,508   | 2,702   | 115,210                         |
| Intersegment sales                                 |   | 1,425   | 1,425                           |
| Intersegment adjustment and eliminations           |   | (1,425)                                       | (1,425)                         |
| <b>Total revenue from contracts with customers</b> | <b>112,508</b>  | <b>2,702</b>                                  | <b>115,210</b>                  |

The following table shows the amounts of revenue recognized in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

|  | <b>2018</b><br><i>RMB million</i> |
|--|-----------------------------------|
| Revenue recognized that was included in contract liabilities at the beginning of the year: |                                   |
| Passenger transportation services  | 6,218                             |

As at December 31, 2018, the unredeemed points awarded under the Group's frequent flyer program included in contract liabilities amounted to RMB2,046 million. The table below presents the activity of the contract liabilities for the Group's frequent flyer program in 2018.

|  | <b>2018</b><br><i>RMB million</i> |
|--|-----------------------------------|
| At January 1   | 1,994                             |
| Deferred during the year                                 | 1,519                             |
| Recognized as revenue during the year                    | (1,227)                           |
| At December 31   | 2,286                             |
| Less: the related pending output value added tax therein | 240                               |
|  | 2,046                             |

## NOTES TO THE FINANCIAL STATEMENTS

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## 5 REVENUE (continued)

## (ii) Performance obligations

Information about the Group's performance obligations is summarized below:

*Passenger transportation services*

The performance obligation is satisfied upon transportation service provided. Payment in advance is required and reflected in sales in advance of carriage or unredeemed points awarded, both of which are included in contract liabilities.

*Cargo and mail transportation services*

The performance obligation is satisfied as services are rendered and payment is generally due within 10 days after the end of each month.

*Tour services*

The performance obligation is satisfied as services are rendered and payment in advance is generally required.

*Ground services*

The performance obligation is satisfied as services are rendered and payment is generally due within 45 days from the date of billing.

*Ticket cancellation and commission services*

The performance obligation is satisfied as the process of ticket cancellation or sales is completed and consideration normally has been received before the services are rendered.

## 6 OTHER OPERATING INCOME AND GAINS

|                                       | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---------------------------------------|--------------------|--------------------|--------------------|
|                                       | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Co-operation routes income (note (a)) | 4,536              | 3,884              | 3,196              |
| Routes subsidy income (note (b))      | 441                | 295                | 400                |
| Other subsidy income (note (c))       | 453                | 762                | 935                |
|                                       | 290                | 69                 | 158                |

|   |       |       |       |
|---|-------|-------|-------|
| Gain on disposal of items of property, plant and equipment  |       |       |       |
| Gain on disposal of prepayments for land use rights   | 210   | 5     | 3     |
| Gain on disposal of available-for-sale investments  |       | 4     | 95    |
| Dividend income from available-for-sale investments   |       | 33    | 28    |
| Gain on disposal of an associate  | 5     | 12    | 12    |
| Dividend income from financial asset at fair value through profit or loss                           | 6     |       |       |
| Dividend income from equity investments designated at fair value through other comprehensive income | 23    |       |       |
| Compensation from ticket sales agents   | 348   | 271   | 228   |
| Gain on disposal of a subsidiary  |       | 1,754 |       |
| Others (note (e))   | 280   | 392   | 414   |
|   | 6,592 | 7,481 | 5,469 |

## Notes:

- (a) Co-operation routes income represents subsidies granted by various local authorities and other parties, with which the Group developed certain routes to support the development of local economy. The amounts granted are calculated based on the negotiated agreements entered into by all parties.
- (b) Routes subsidy income represents subsidies granted by various authorities to support certain international and domestic routes operated by the Group.
- (c) Other subsidy income represents subsidies granted by various local authorities based on certain amounts of tax paid and other government grants.
- (d) There are no unfulfilled conditions or other contingencies related to subsidies that were recognized for the years ended December 31, 2018, 2017 and 2016.
- (e) Others mainly represent compensation from transfer of the pilots.



## NOTES TO THE FINANCIAL STATEMENTS

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## 7 WAGES, SALARIES AND BENEFITS

|                                       | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---------------------------------------|--------------------|--------------------|--------------------|
|                                       | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Wages, salaries, bonus and allowances | 17,865             | 16,474             | 14,370             |
| Employee welfare and benefits         | 170                | 133                | 235                |
| Pension (note 41(a))                  | 2,306              | 1,987              | 1,769              |
| Medical insurance (note (a))          | 706                | 663                | 606                |
| Staff housing fund (note (b))         | 948                | 886                | 868                |
| Staff housing allowances (note (c))   | 109                | 150                | 236                |
| Early retirement benefits (note (d))  | 30                 | 27                 | 61                 |
|                                       | 22,134             | 20,320             | 18,145             |

Notes:

## (a) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organized by municipal governments.

## (b) Staff housing fund

In accordance with the relevant PRC housing regulations, the Group is required to contribute to the state-sponsored housing fund for its employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits.

## (c) Staff housing allowances

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally provided over a period of 20 years. Upon an

eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid.

(d) Early retirement benefits

The Group implements an early retirement scheme which allows eligible employees to early retire on a voluntary basis. The Group undertakes the obligations to pay the early retirement employees' basic salaries and certain welfare in the future on a monthly basis according to the early retirement scheme, together with social insurance and housing fund pursuant to the regulation of the local government. The benefits of the early retirement scheme are calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the benefits the early retirement employees enjoyed. The present value of the future cash flows expected to be required to settle the obligations is recognized as a provision in other long-term liabilities.

(e) Emoluments of directors and supervisors

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, together with the remuneration of supervisors, is as follows:

## NOTES TO THE FINANCIAL STATEMENTS

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## 7 WAGES, SALARIES AND BENEFITS (continued)

(e) Emoluments of directors and supervisors (continued)

2018

|  | Salaries<br>and<br>allowances<br><i>RMB 000</i> | Bonus<br><i>RMB 000</i> | Total<br><i>RMB 000</i> |
|--|---|-------------------------|-------------------------|
| <b>Executive Directors</b>                 |   |                         |                         |
| Liu Shaoyong*                              |   |                         |                         |
| Ma Xulun*&****                             |   |                         |                         |
| Xu Zhao*&****                              |   |                         |                         |
| Gu Jiadan*&****                            |   |                         |                         |
| Li Yangmin*&****                           |   |                         |                         |
| Tang Bing*&****                            |   |                         |                         |
| Tian Liuwen*&****                          |   |                         |                         |
| Yuan Jun**                                 | 867   |                         | 867                     |
| <b>Independent non-executive Directors</b> |   |                         |                         |
| Lin Wanli**                                |   |                         |                         |
| Li Ruoshan                                 | 200   |                         | 200                     |
| Ma Weihua                                  | 200   |                         | 200                     |
| Shao Ruiqing                               | 200   |                         | 200                     |
| Cai Hongping                               | 200   |                         | 200                     |
| <b>Supervisors</b>                         |   |                         |                         |
| Xi Sheng*                                  |   |                         |                         |
| Gao Feng**                                 | 251   |                         | 251                     |
| Li Jinde*&****                             |   |                         |                         |
| Ba Shengji*&****                           |   |                         |                         |
| Hu Jidong*&****                            |   |                         |                         |
| Feng Jinxiong*****                         | 346   |                         | 346                     |
| Jia Shaojun*&****                          |   |                         |                         |
| <b>Total</b>                               | 2,264   |                         | 2,264                   |

2017

|  | <b>Salaries and<br/>allowances</b> | <b>Bonus</b>   | <b>Total</b>   |
|--|------------------------------------|----------------|----------------|
|  | <i>RMB 000</i>                     | <i>RMB 000</i> | <i>RMB 000</i> |
| <b>Executive Directors</b>                 |                                    |                |                |
| Liu Shaoyong*                              |                                    |                |                |
| Ma Xulun*                                  |                                    |                |                |
| Xu Zhao*                                   |                                    |                |                |
| Gu Jiadan*                                 |                                    |                |                |
| Li Yangmin*                                |                                    |                |                |
| Tang Bing*                                 |                                    |                |                |
| Tian Liuwen*                               |                                    |                |                |
| <b>Independent non-executive Directors</b> |                                    |                |                |
| Li Ruoshan                                 | 200                                |                | 200            |
| Shao Ruiqing                               | 200                                |                | 200            |
| Ma Weihua                                  | 200                                |                | 200            |
| Cai Hongping                               | 200                                |                | 200            |
| <b>Supervisors</b>                         |                                    |                |                |
| Xi Sheng*                                  |                                    |                |                |
| Feng Jinxiong                              | 584                                |                | 584            |
| Ba Shengji*                                |                                    |                |                |
| Hu Jidong                                  | 1,549                              |                | 1,549          |
| Jia Shaojun*                               |                                    |                |                |
| <b>Total</b>                               | 2,933                              |                | 2,933          |

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## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

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## 7 WAGES, SALARIES AND BENEFITS (continued)

(e) Emoluments of directors and supervisors (continued)

2016

|  | Salaries and<br>allowances<br><i>RMB 000</i> | Bonus<br><i>RMB 000</i> | Total<br><i>RMB 000</i> |
|--|--|-------------------------|-------------------------|
| <b>Executive Directors</b>                 |  |                         |                         |
| Liu Shaoyong*                              |  |                         |                         |
| Ma Xulun*                                  |  |                         |                         |
| Xu Zhao*                                   |  |                         |                         |
| Gu Jiadan*                                 |  |                         |                         |
| Li Yangmin*                                |  |                         |                         |
| Tang Bing*                                 |  |                         |                         |
| Tian Liuwen*                               |  |                         |                         |
| <b>Independent non-executive Directors</b> |  |                         |                         |
| Li Ruoshan                                 | 160  |                         | 160                     |
| Ji Weidong*****                            |  |                         |                         |
| Shao Ruiqing                               | 160  |                         | 160                     |
| Ma Weihua                                  | 160  |                         | 160                     |
| Cai Hongping**                             | 100  |                         | 100                     |
| <b>Supervisors</b>                         |  |                         |                         |
| Yu Faming*&***                             |  |                         |                         |
| Xi Sheng*                                  |  |                         |                         |
| Xu Haihua***                               | 288  |                         | 288                     |
| Feng Jinxiong                              | 535  |                         | 535                     |
| Ba Shengji*                                |  |                         |                         |
| Hu Jidong**                                | 426  |                         | 426                     |
| Jia Shaojun*&***                           |  |                         |                         |
| <b>Total</b>                               | <b>1,829</b>                                 |                         | <b>1,829</b>            |

(e) Emoluments of directors and supervisors

- \* These directors and supervisors of the Company received emoluments from CEA Holding, the parent company, part of which were in respect of their services to the Company and its subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to the Group and their services to CEA Holding.
- \*\* These directors and supervisors of the Company were newly appointed or elected during the years ended December 31, 2018 and 2016, respectively.
- \*\*\* These directors and supervisors of the Company resigned during the years ended December 31, 2018 and 2016, respectively.
- \*\*\*\* Mr. Ma Xulun resigned on February 1, 2019.
- \*\*\*\*\* Mr. Feng Jinxiong passed away due to illness during the year ended December 31, 2018.
- \*\*\*\*\* Mr. Ji Weidong has filed his resignation during the year ended December 31, 2015 and has fulfilled his responsibility until new director being appointed by the board in June 2016.

During the years ended December 31, 2018, 2017 and 2016, no directors and supervisors waived their emoluments.

(f) Five highest paid individuals

None of the Company's directors and supervisors was among the five highest paid individuals in the Group for the year ended December 31, 2018 (2017: Nil). The emoluments payable to the five highest paid individuals were as follows:

|                                       | <b>2018</b>    | <b>2017</b>    |
|---------------------------------------|----------------|----------------|
|                                       | <i>RMB 000</i> | <i>RMB 000</i> |
| Wages, salaries, bonus and allowances | 9,110          | 8,702          |

The number of five highest paid individuals whose emoluments fell within the following bands is as follows:

|                                | <b>Number of individuals</b> |             |
|--------------------------------|------------------------------|-------------|
|                                | <b>2018</b>                  | <b>2017</b> |
| HK\$2,000,001 to HK\$2,500,000 | 5                            | 5           |

During the year ended December 31, 2018, no emoluments were paid by the Group to the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2017: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

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## 8 IMPAIRMENT CHARGES

|  | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Write-down of flight equipment spare parts to net realizable value (note 28) | 301                               | 112                               | 10                                |
| Impairment charge on property, plant and equipment (note 17)                 | 15                                | 379                               | 29                                |
| Impairment charge on assets classified as held for sale                      | 2                                 | 3                                 |                                   |
|  | 318                               | 494                               | 39                                |

## 9 IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET

|  | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Reversal of impairment charge on trade receivables (note 29) | (21)                              | (3)                               | (1)                               |
| Accrual/(reversal) of impairment charge on other receivables | 48                                |                                   | (9)                               |
|  | 27                                | (3)                               | (10)                              |

## 10 GAIN/(LOSS) ON FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

|  | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> | <b>2016</b><br><i>RMB million</i> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Interest rate swap contracts                 |                                   |                                   | 2                                 |
| Forward foreign exchange contracts (note 25) | 311                               | (311)                             |                                   |
|  | 311                               | (311)                             | 2                                 |

## 11 OPERATING PROFIT

Operating profit is stated after charging the following items:

|  | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|--|--------------------|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Amortization of intangible assets (note 20)                                    | 160                | 142                | 129                |
| Depreciation of property, plant and equipment (note 17)                        |                    |                    |                    |
| owned  | 7,926              | 7,065              | 6,388              |
| leased (finance leases)  | 6,690              | 6,302              | 5,563              |
| Depreciation of investment properties (note 18)                                | 26                 | 12                 | 11                 |
| Amortization of long-term deferred assets included in other non-current assets | 468                | 402                | 394                |
| Amortization of prepayments for land use rights                                | 43                 | 45                 | 63                 |
| Consumption of flight equipment spare parts                                    | 1,088              | 1,131              | 1,198              |
| Auditors remuneration  | 17                 | 19                 | 18                 |
| Co-operation routes income (note 6)  | (4,536)            | (3,884)            | (3,196)            |
| Routes subsidy income (note 6)   | (441)              | (295)              | (400)              |
| Other subsidy income (note 6)  | (453)              | (762)              | (935)              |
| Gain on disposal of a subsidiary (note 6)                                      |                    | (1,754)            |                    |
| Foreign exchange differences, net (note 12) (note 13)                          | 2,191              | (2,001)            | (3,574)            |

## 12 FINANCE INCOME

|  | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|--|--------------------|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Interest income                          | 110                | 111                | 96                 |
| Foreign exchange gains, net (note 13(b)) |                    | 2,001              |                    |
|  | 110                | 2,112              | 96                 |



## NOTES TO THE FINANCIAL STATEMENTS

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## 13 FINANCE COSTS

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Interest on bank borrowings   | 1,569              | 1,590              | 1,529              |
| Interest relating to obligations under finance leases   | 2,440              | 1,845              | 1,349              |
| Interest relating to post-retirement benefit obligations  | 106                | 98                 | 88                 |
| Interest on bonds and debentures  | 468                | 381                | 359                |
| Interest relating to interest rate swap contracts   | (6)                | 63                 | 122                |
| Less: amount capitalized into advanced payments on acquisition of aircraft (Note (a)) (note 21) | (850)              | (793)              | (749)              |
|   | 3,727              | 3,184              | 2,698              |
| Foreign exchange losses, net (note (b))   | 2,191              |                    |                    |
| Less: amounts capitalized into advanced payments on acquisition of aircraft (note 21)           | (151)              |                    |                    |
| Foreign exchange difference, net (Note (b))   |                    |                    | 3,574              |
|   | 5,767              | 3,184              | 6,272              |

Notes:

- (a) The weighted average interest rate used for interest capitalization was 3.54% per annum for the year ended December 31, 2018 (2017: 3.40% and 2016: 3.25%).
- (b) The exchange gains and losses primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.

## 14 INCOME TAX EXPENSE

Income tax charged to profit or loss was as follows:

|            | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|------------|--------------------|--------------------|--------------------|
|            | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Income tax | 1,220              | 1,962              | 1,396              |

|                             |       |       |       |
|-----------------------------|-------|-------|-------|
| Deferred taxation (note 38) | (294) | (162) | 146   |
|                             | 926   | 1,800 | 1,542 |

Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy (Cai Shui [2011] No.58), and other series of tax regulations, enterprises located in the western regions and engaged in the industrial activities as listed in the Catalogue of Encouraged Industries in Western Regions, will be entitled to a reduced corporate income tax rate of 15% from 2011 to 2020 upon approval from the tax authorities. CEA Yunnan, a subsidiary of the Company, obtained approval from the tax authorities and has been entitled to a reduced corporate income tax rate of 15% from January 1, 2011. The Company's Sichuan branch, Gansu branch and Xibei branch also obtained approvals from the respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax rate of 16.5% (2017:16.5%). Eastern E-commerce, a subsidiary of the Company, qualifying for High and New Technology Enterprise (HNTE) status pursuant to the Administrative measures for the determination of high and new technology enterprises (Guokehuofa [2016] No.32), has been entitled to a reduced corporate income tax rate of 15% from January 1, 2018 (2017:25%) as approved by the tax authorities.

The Company and its subsidiaries, except for CEA Yunnan, Eastern E-commerce, Sichuan branch, Gansu branch, Xibei branch and those incorporated in Hong Kong, are generally subject to the PRC standard corporate income tax rate of 25% (2017: 25%).

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## 14 INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Profit before income tax  | 3,856              | 8,610              | 6,497              |
| Tax calculated at the tax rate of 25% (2017: 25%, 2016:25%)             | 964                | 2,152              | 1,624              |
| Lower tax rates enacted by local authority                              | (93)               | (87)               | (102)              |
| Share of results of associates and joint ventures                       | (51)               | (63)               | (37)               |
| Income not subject to tax   | (9)                | (13)               | (10)               |
| Expenses not deductible for tax   | 88                 | 38                 | 117                |
| Utilization of previously unrecognized tax losses                       | (60)               | (253)              | (51)               |
| Unrecognized tax losses for the year                                    | 28                 | 48                 | 13                 |
| Utilization of previously unrecognized deductible temporary differences | (1)                | (5)                | (10)               |
| Unrecognized deductible temporary differences                           | 23                 | 2                  | 6                  |
| Adjustments in respect of current tax of previous periods               | 61                 | (8)                |                    |
| Super deduction of research and development costs                       | (24)               | (11)               | (8)                |
| Tax charge  | 926                | 1,800              | 1,542              |
| Effective tax rate  | 24.01%             | 20.91%             | 23.73%             |

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended December 31, 2018, 2017 and 2016, as there are tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to the aviation business.

## 15 DIVIDENDS

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Interim Nil (2017: Nil, 2016: RMB5.1 cents)<br>per ordinary share                             |                    |                    | 738                |
| Proposed final RMB5.1 cents<br>(2017: RMB5.1 cents, 2016: RMB4.9 cents)<br>per ordinary share |                    | 740                | 709                |
|   |                    | 740                | 1,447              |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

#### 16 EARNINGS PER SHARE

The calculation of basic earnings per share was based on the profit attributable to equity holders of the Company of RMB2,698 million (2017: RMB6,342 million, 2016: RMB4,498 million) and the weighted average number of shares of 14,467,585,682 (2017: 14,467,585,682, 2016: 13,811,136,000) in issue during the year ended December 31, 2018. The Company had no potentially dilutive options or other instruments relating to the ordinary shares in issue during the years ended December 31, 2018, 2017 and 2016.

## NOTES TO THE FINANCIAL STATEMENTS

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## 17 PROPERTY, PLANT AND EQUIPMENT

|  | <b>Aircraft, engines and<br/>flight equipment<br/>Owned</b> | <b>Held under<br/>finance leases</b> | <b>Buildings</b>   | <b>Other<br/>property, plant<br/>and equipment</b> | <b>Construction<br/>in progress</b> | <b>Total</b>       |
|--|---|--------------------------------------|--------------------|--|-------------------------------------|--------------------|
|  | <i>RMB million</i>  | <i>RMB million</i>                   | <i>RMB million</i> | <i>RMB million</i>                                 | <i>RMB million</i>                  | <i>RMB million</i> |
| <b>December 31, 2018</b>   |   |                                      |                    |  |                                     |                    |
| At December 31, 2017 and at January 1, 2018:                         |   |                                      |                    |  |                                     |                    |
| Cost   | 111,297   | 105,801                              | 8,809              | 7,934  | 3,705                               | 237,546            |
| Accumulated depreciation and impairment                              | (42,303)  | (21,041)                             | (2,331)            | (5,015)  |                                     | (70,690)           |
| Net carrying amount  | 68,994  | 84,760                               | 6,478              | 2,919  | 3,705                               | 166,856            |
| At January 1, 2018, net of accumulated depreciation and impairment   |   |                                      |                    |  |                                     |                    |
|  | 68,994  | 84,760                               | 6,478              | 2,919  | 3,705                               | 166,856            |
| Additions  | 6,057   | 9,821                                | 32                 | 1,192  | 4,181                               | 21,283             |
| Disposals  | (3,304)   | (1,332)                              | (202)              | (54)   |                                     | (4,892)            |
| Transfer from construction in progress                               |   |                                      | 2,909              | 548  | (3,457)                             |                    |
| Transfer from advanced payments on acquisition of aircraft (note 21) | 824   | 10,696                               |                    |  |                                     | 11,520             |
| Transfer from investment properties (note 18)                        |   |                                      | 18                 |  |                                     | 18                 |
| Transfer to investment properties (note 18)                          |   |                                      | (386)              |  |                                     | (386)              |
| Assets included in assets classified as held for sale                | (13)  |                                      |                    |  |                                     | (13)               |
| Transfer from/(to) other non-current assets                          |   |                                      |                    | 359  | (10)                                | 349                |
| Depreciation provided during the year                                | (6,817)   | (6,690)                              | (318)              | (791)  |                                     | (14,616)           |
| Impairment   | (15)  |                                      |                    |  |                                     | (15)               |
| Transfers  | 2,820   | (2,820)                              | (1)                | 1  |                                     |                    |
| At December 31, 2018, net of accumulated depreciation and            | 68,546  | 94,435                               | 8,530              | 4,174  | 4,419                               | 180,104            |

## impairment

| At December 31, 2018:                   |          |          |         |         |       |          |
|---|----------|----------|---------|---------|-------|----------|
| Cost                                    | 111,968  | 117,824  | 10,689  | 9,462   | 4,419 | 254,362  |
| Accumulated depreciation and impairment | (43,422) | (23,389) | (2,159) | (5,288) |       | (74,258) |
| Net carrying amount                     | 68,546   | 94,435   | 8,530   | 4,174   | 4,419 | 180,104  |

During the year, the Group recognized an impairment loss of approximately RMB15 million relating to aircraft, engines and flight equipment (2017: RMB379 million). The recoverable amounts of these impaired aircraft, engines and flight equipment are determined at the higher of their fair value less costs to sell and value in use.

As at December 31, 2018, the ownership certificates of buildings with a net carrying amount of RMB1,110 million (December 31, 2017: RMB1,397 million) have not been obtained. The directors of the Company are of the opinion that the Group legally owns and has the rights to use the aforesaid buildings, and that there is no material adverse impact on the overall financial position of the Group.

The following table indicates the cost and net carrying amount of the Group's aircraft pledged as collateral under certain borrowing arrangements (note 39) and the Group's aircraft held under finance leases:

|                         | 2018                       |   | 2017                       |   |
|-------------------------|----------------------------|---|----------------------------|---|
|                         | Cost<br><i>RMB million</i> | Net carrying amount<br><i>RMB million</i> | Cost<br><i>RMB million</i> | Net carrying amount<br><i>RMB million</i> |
| Aircraft                |                            |   |                            |   |
| - pledged as collateral | 11,752                     | 8,391                                     | 11,207                     | 8,379                                     |
| - under finance leases  | 117,828                    | 94,416                                    | 108,937                    | 86,872                                    |
|                         | 129,580                    | 102,807                                   | 120,144                    | 95,251                                    |

## NOTES TO THE FINANCIAL STATEMENTS

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## 17 PROPERTY, PLANT AND EQUIPMENT (continued)

|  | Aircraft, engines and<br>flight equipment<br>Held under |                    | Buildings          | Other<br>property, plan<br>and equipment | Construction<br>in<br>progress | Total              |
|--|---|--------------------|--------------------|--|--------------------------------|--------------------|
|  | Owned   | finance leases     |                    |  |                                |                    |
|  | <i>RMB million</i>                                      | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i>                       | <i>RMB million</i>             | <i>RMB million</i> |
| <b>December 31, 2017</b>   |   |                    |                    |  |                                |                    |
| At December 31, 2016 and at<br>January 1, 2017:                          |   |                    |                    |  |                                |                    |
| Cost   | 99,653  | 97,064             | 8,324              | 8,201                                    | 2,398                          | 215,640            |
| Accumulated depreciation and<br>impairment                               | (34,914)  | (19,890)           | (2,450)            | (5,206)                                  |                                | (62,460)           |
| Net carrying amount  | 64,739  | 77,174             | 5,874              | 2,995                                    | 2,398                          | 153,180            |
| At January 1, 2017, net of<br>accumulated depreciation and<br>impairment |   |                    |                    |  |                                |                    |
|  | 64,739  | 77,174             | 5,874              | 2,995                                    | 2,398                          | 153,180            |
| Additions  | 3,659   | 8,277              | 276                | 808                                      | 2,688                          | 15,708             |
| Disposals  | (656)   | (264)              | (1)                | (103)                                    |                                | (1,024)            |
| Transfer from construction in<br>progress                                |   |                    | 1,019              | 18                                       | (1,037)                        |                    |
| Transfer from advanced payments<br>on acquisition of aircraft (note 21)  | 1,701   | 13,378             |                    |  |                                | 15,079             |
| Transfer from investment<br>properties (note 18)                         |   |                    | 9                  |  |                                | 9                  |
| Transfer to investment properties<br>(note 18)                           |   |                    | (2)                |  |                                | (2)                |
| Assets included in assets<br>classified as held for sale                 |   |                    |                    | (2)                                      |                                | (2)                |
| Transfer to other non-current<br>assets                                  |   |                    |                    |  | (327)                          | (327)              |
| Depreciation provided during the<br>year                                 | (6,154)   | (6,302)            | (298)              | (613)                                    |                                | (13,367)           |
| Disposal of a subsidiary (note 46)                                       | (199)   | (1,220)            | (375)              | (208)                                    | (17)                           | (2,019)            |
| Impairment   | (379)   |                    |                    |  |                                | (379)              |
| Transfers  | 6,283   | (6,283)            | (24)               | 24                                       |                                |                    |
|  | 68,994  | 84,760             | 6,478              | 2,919                                    | 3,705                          | 166,856            |

At December 31, 2017, net of accumulated depreciation and impairment

At December 31, 2017:

|   |          |          |         |         |       |          |
|---|----------|----------|---------|---------|-------|----------|
| Cost                                    | 111,297  | 105,801  | 8,809   | 7,934   | 3,705 | 237,546  |
| Accumulated depreciation and impairment | (42,303) | (21,041) | (2,331) | (5,015) |       | (70,690) |
| Net carrying amount                     | 68,994   | 84,760   | 6,478   | 2,919   | 3,705 | 166,856  |

## 18 INVESTMENT PROPERTIES

|   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---|-----------------------------------|-----------------------------------|
| <b>Cost</b>   |                                   |                                   |
| At January 1  | 392                               | 402                               |
| Transfer from property, plant and equipment (note 17) | 474                               | 4                                 |
| Transfer from intangible asset (note 20)              | 98                                |                                   |
| Transfer to property, plant and equipment (note 17)   | (24)                              | (14)                              |
| At December 31  | 940                               | 392                               |
| <b>Accumulated depreciation</b>                       |                                   |                                   |
| At January 1  | 90                                | 81                                |
| Transfer from property, plant and equipment (note 17) | 88                                | 2                                 |
| Transfer from intangible asset (note 20)              | 18                                |                                   |
| Transfer to property, plant and equipment (note 17)   | (6)                               | (5)                               |
| Charge for the year (note 11)                         | 26                                | 12                                |
| At December 31  | 216                               | 90                                |
| <b>Net book amount</b>                                |                                   |                                   |
| At December 31  | 724                               | 302                               |

As at December 31, 2018, the fair value of the investment properties was approximately RMB1,127 million (2017: RMB628 million) according to a valuation performed by an independent professionally qualified valuer.



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## 18 INVESTMENT PROPERTIES (continued)

The investment properties are leased to third parties and related parties under operating leases. Rental income totaling RMB63 million (2017: RMB39 million, 2016: RMB37 million) was received by the Group during the year in respect of the leases.

As at December 31, 2018, the carrying amount of the investment properties for which the ownership certificates of buildings have not been obtained was RMB498 million (2017: RMB112 million). The directors of the Company are of the opinion that the Group legally owns and has the rights to use the aforesaid investment properties, and that there is no material adverse impact on the overall financial position of the Group.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| Buildings   | Fair value measurement using   |  |  | Total<br><i>RMB million</i> |
|---|--|--|--|-----------------------------|
|   | Quoted prices<br>in<br>active<br>markets<br>(Level<br>1)<br><i>RMB million</i> | Significant<br>observable<br>inputs<br>(Level 2)<br><i>RMB million</i> | Significant<br>unobservable<br>inputs<br>(Level 3)<br><i>RMB million</i> |                             |
| Not measured at fair value but fair value is disclosed: |  |  |  |                             |
| As at December 31, 2018                                 |  | 243  | 884  | 1,127                       |
| As at December 31, 2017                                 |  | 198  | 430  | 628                         |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

The fair values of the buildings with comparable market price have been estimated using significant observable inputs and calculated by adjusted market price considering the condition and location of the buildings.

The fair values of the buildings without comparable market price have been estimated by a discounted cash flow valuation model using significant unobservable inputs such as estimated rental value, rent growth, long term vacancy rate and discounted rate.

## 19 PREPAYMENTS FOR LAND USE RIGHTS

|                                | <b>2018</b>        | <b>2017</b>        |
|--------------------------------|--------------------|--------------------|
|                                | <i>RMB million</i> | <i>RMB million</i> |
| Carrying amount at January 1   | 1,717              | 2,064              |
| Recognized during the year     | (330)              | (347)              |
| Carrying amount at December 31 | 1,387              | 1,717              |

Prepayments for land use rights represent unamortized prepayments for land use rights.

## 20 INTANGIBLE ASSETS

|  | <b>Goodwill</b>    | <b>Computer</b>    | <b>Others</b>      | <b>Total</b>       |
|--|--------------------|--------------------|--------------------|--------------------|
|  | <b>(note (a))</b>  | <b>software</b>    | <b>(note (b))</b>  | <b></b>            |
|  | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| <b>December 31, 2018</b>                                 |                    |                    |                    |                    |
| Cost at January 1, 2018, net of accumulated amortization | 11,270             | 293                | 33                 | 11,596             |
| Additions  |                    | 173                |                    | 173                |
| Amortization provided during the year                    |                    | (127)              | (33)               | (160)              |
| At December 31, 2018                                     | 11,270             | 339                |                    | 11,609             |
| At December 31, 2018:                                    |                    |                    |                    |                    |
| Cost   | 11,270             | 1,077              | 98                 | 12,445             |
| Accumulated amortization                                 |                    | (738)              | (98)               | (836)              |
| Net carrying amount                                      | 11,270             | 339                |                    | 11,609             |

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## 20 INTANGIBLE ASSETS (continued)

|  | <b>Goodwill</b><br><b>(note (a))</b><br><i>RMB million</i> | <b>Computer</b><br><b>software</b><br><i>RMB million</i> | <b>Others</b><br><b>(note (b))</b><br><i>RMB million</i> | <b>Total</b><br><i>RMB million</i> |
|--|--|--|--|------------------------------------|
| <b>December 31, 2017</b>                                 |  |  |  |                                    |
| Cost at January 1, 2017, net of accumulated amortization | 11,270   | 288  | 66   | 11,624                             |
| Additions  |  | 126  |  | 126                                |
| Transfer from construction in process                    |  | 3  |  | 3                                  |
| Amortization provided during the year                    |  | (109)  | (33)   | (142)                              |
| Disposal of a subsidiary (note 46)                       |  | (14)   |  | (14)                               |
| Disposals  |  | (1)  |  | (1)                                |
| At December 31, 2017                                     | 11,270   | 293  | 33   | 11,596                             |
| <b>At December 31, 2017:</b>                             |  |  |  |                                    |
| Cost   | 11,270   | 904  | 98   | 12,272                             |
| Accumulated amortization                                 |  | (611)  | (65)   | (676)                              |
| Net carrying amount                                      | 11,270   | 293  | 33   | 11,596                             |

Notes:

- (a) The balance represents goodwill arising from the acquisition of Shanghai Airlines. The value of the goodwill is attributable to strengthening the competitiveness of the Group's airline transportation operations, attaining synergy through integration of the resources and accelerating the development of international air transportation in Shanghai. For the purpose of impairment assessment, goodwill was allocated to the cash-generating unit (CGU) that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on a financial budget approved by senior management. The discount rate after tax applied to the post-tax cash flow projections is 10% (2017: 11%). The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3% (2017: 3%), which does not exceed the long-term average growth rate for the business in which the CGU operates. No impairment for the goodwill was required based on the value-in-use calculation as at the reporting date.

(b)

The balance represents the costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights taking off/landing).

## 21 ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| At January 1  | 24,752             | 23,357             |
| Additions   | 7,709              | 15,681             |
| Interest capitalized (note 13)                      | 1,001              | 793                |
| Transfer to property, plant and equipment (note 17) | (11,520)           | (15,079)           |
| At December 31                                      | 21,942             | 24,752             |

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## 22 INVESTMENTS IN ASSOCIATES

|                     | <b>2018</b>        | <b>2017</b>        |
|---------------------|--------------------|--------------------|
|                     | <i>RMB million</i> | <i>RMB million</i> |
| Share of net assets | 1,696              | 1,654              |

The movements in investments in associates were as follows:

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| At January 1  | 1,654              | 1,536              |
| Additions   |                    | 47                 |
| Share of results of associates                                  | 170                | 202                |
| Share of revaluation on equity investments held by an associate | (24)               | 10                 |
| Dividend received during the year                               | (104)              | (141)              |
| At December 31  | 1,696              | 1,654              |

Particulars of the principal associates, which are limited liability companies, are as follows:

| Company name   | Place of establishment and operation and date of establishment | Registered capital |                | Attributable equity interest |      | Principal activities  |
|--|--|--------------------|----------------|------------------------------|------|---|
|  |  | 2018               | 2017           | 2018                         | 2017 |   |
|  |  | <i>Million</i>     | <i>Million</i> |                              |      |   |
| Eastern Air Group Finance Co., Ltd.<br>( Eastern Air Finance Company ) | PRC/Mainland China<br>December 6, 1995                         | RMB2,000           | RMB2,000       | 25%                          | 25%  | Provision of financial services to group companies of CEA Holding |
| China Eastern Air Catering Investment Co., Ltd.                        | PRC/Mainland China<br>November 17, 2003                        | RMB350             | RMB350         | 45%                          | 45%  | Provision of air catering services                                |
| Shanghai Pratt & Whitney Aircraft Engine Maintenance                   | PRC/Mainland China<br>March 28, 2008                           | USD40              | USD40          | 51%                          | 51%  | Provision of aircraft, engine and other related                   |

|  |                    |        |        |     |     |  |
|--|--------------------|--------|--------|-----|-----|--|
| Co., Ltd. ( Shanghai P&W ) (note)  |                    |        |        |     |     | components maintenance services                              |
| New Shanghai International Tower Co., Ltd.                                   | PRC/Mainland China |        |        |     |     | Property development provision and management services       |
|  | November 17, 1992  | RMB167 | RMB167 | 20% | 20% |  |
| Eastern Aviation Import & Export Co., Ltd. ( Eastern Import & Export )       | PRC/Mainland China |        |        |     |     | Provision of aviation equipment and spare parts purchase     |
|  | June 9, 1993       | RMB80  | RMB80  | 45% | 45% |  |
| Eastern Aviation Advertising Service Co., Ltd. ( Eastern Advertising )       | PRC/Mainland China |        |        |     |     | Provision of aviation advertising agency services            |
|  | March 4, 1986      | RMB200 | RMB200 | 45% | 45% |  |
| Shanghai Collins Aviation Maintenance Service Co., Ltd. ( Collins Aviation ) | PRC/Mainland China |        |        |     |     | Provision of airline electronic product maintenance services |
|  | September 27, 2002 | USD7   | USD7   | 35% | 35% |  |

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## 22 INVESTMENTS IN ASSOCIATES (continued)

Note:

In 2008, the Company entered into an agreement with United Technologies International Corporation ( Technologies International ) to establish Shanghai P&W, in which the Company holds a 51% interest. According to the shareholder agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

The following table illustrates the aggregate financial information of the Group's associates that were not individually material:

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| Share of the associates' profit for the year                         | 170                | 202                |
| Share of the associates' other comprehensive income                  | (24)               | 10                 |
| Share of the associates' total comprehensive income                  | 146                | 212                |
| Aggregate carrying amount of the Group's interests in the associates | 1,696              | 1,654              |

## 23 INVESTMENTS IN JOINT VENTURES

|                     | <b>2018</b>        | <b>2017</b>        |
|---------------------|--------------------|--------------------|
|                     | <i>RMB million</i> | <i>RMB million</i> |
| Share of net assets | 577                | 557                |

The movements in investments in joint ventures were as follows:

|                                   | <b>2018</b>        | <b>2017</b>        |
|-----------------------------------|--------------------|--------------------|
|                                   | <i>RMB million</i> | <i>RMB million</i> |
| At January 1                      | 557                | 524                |
| Additions                         | 16                 | 17                 |
| Share of results                  | 34                 | 49                 |
| Dividend received during the year | (30)               | (33)               |

|                |     |     |
|----------------|-----|-----|
| At December 31 | 577 | 557 |
|----------------|-----|-----|

Particulars of the principal joint ventures, which are limited liability companies, are as follows:

| Company name  | Place of establishment<br>and<br>operation and date<br>of establishment | Paid-up capital        |                        | Attributable<br>equity interest |      | Principal activities  |
|---|---|------------------------|------------------------|---------------------------------|------|---|
|   |   | 2018<br><i>Million</i> | 2017<br><i>Million</i> | 2018                            | 2017 |   |
| Shanghai Technologies Aerospace Co., Ltd. ( Technologies Aerospace ) (note)   | PRC/Mainland China<br>September 28, 2004                                | USD73                  | USD73                  | 51%                             | 51%  | Provision of repair and maintenance services                                    |
| Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ( Wheels & Brakes ) | PRC/Mainland China<br>December 28, 1995                                 | USD2                   | USD2                   | 40%                             | 40%  | Provision of spare parts repair and maintenance services                        |
| Eastern China Kaiya System Integration Co., Ltd. ( China Kaiya )  | PRC/Mainland China<br>May 21, 1999                                      | RMB10                  | RMB10                  | 41%                             | 41%  | Provision of computer systems development and maintenance services              |
| CAE Melbourne Flight Training Pty Ltd. ( CAE Melbourne )  | Australia<br>March 9, 2007  | AUD11                  | AUD11                  | 50%                             | 50%  | Provision of flight training services   |
| Shanghai Hute Aviation Technology Co., Ltd. ( Shanghai Hute )   | PRC/Mainland China<br>April 9, 2003                                     | RMB30                  | RMB30                  | 50%                             | 50%  | Provision of equipment maintenance services                                     |
| Xi'an CEA SAFRAN Landing Systems Services Co., Ltd. ( XIESA )   | PRC/Mainland China<br>July 12, 2017                                     | USD40                  | USD40                  | 50%                             | 50%  | Provision of aircraft, engine and other related components maintenance services |



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## 23 INVESTMENTS IN JOINT VENTURES (continued)

Note:

Under a joint venture agreement with a joint venture partner of Technologies Aerospace dated March 10, 2003, both parties have agreed to share the control over the economic activities of Technologies Aerospace with the joint venture partner. Any strategic financial and operating decisions relating to the activities of Technologies Aerospace require the unanimous consent of the Company and the joint venture partner.

The following table illustrates the aggregate financial information of the Group's joint ventures that were not individually material:

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| Share of the joint ventures profit for the year                          | 34                 | 49                 |
| Share of the joint ventures total comprehensive income                   | 34                 | 49                 |
| Aggregate carrying amount of the Group's interests in the joint ventures | 577                | 557                |

## 24 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| <b>Equity investments designated at fair value through other comprehensive income</b> |                    |                    |
| Listed equity investments, at fair value  |                    |                    |
| TravelSky Technology Limited  | 510                |                    |
|   | 510                |                    |
| Unlisted equity investments, at fair value  |                    |                    |
| Sichuan Airlines Corporation Limited  | 438                |                    |
| Aviation Data Communication Corporation Limited                                       | 161                |                    |
| Others  | 138                |                    |

|  |       |
|--|-------|
|  | 737   |
|  | 1,247 |
| <b>Available-for-sale investments</b>    |       |
| Listed equity investments, at fair value | 693   |
| Unlisted equity investments, at cost     | 107   |
|  | 800   |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended December 31, 2018, the Group received dividends in the amounts of RMB8 million, RMB14 million and RMB1 million from TravelSky Technology Limited, Sichuan Airlines Corporation Limited and other non-listed equity investments designated at fair value through other comprehensive income, respectively.

During the year ended December 31, 2017, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB156 million.

## 25 DERIVATIVE FINANCIAL INSTRUMENTS

|                              | <b>Assets</b>      |                    | <b>Liabilities</b> |                    |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
|                              | <b>2018</b>        | <b>2017</b>        | <b>2018</b>        | <b>2017</b>        |
|                              | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| <b>At December 31</b>        |                    |                    |                    |                    |
| Forward currency contracts   |                    |                    | 29                 | 311                |
| Interest rate swaps          | 223                | 151                |                    | 14                 |
| <b>Total</b>                 | <b>223</b>         | <b>151</b>         | <b>29</b>          | <b>325</b>         |
| <b>Less: current portion</b> |                    |                    |                    |                    |
| Forward currency contracts   |                    |                    | 29                 | 311                |
| Interest rate swaps          | 1                  |                    |                    | 13                 |
| <b>Non-current portion</b>   | <b>222</b>         | <b>151</b>         |                    | <b>1</b>           |

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25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

*Cash flow hedge under IFRS 9 Foreign currency risk*

Forward currency contracts are designated as hedging instruments in cash flow hedges of forecasted capital expenditures in USD. These forecasted transactions are highly probable, and they comprise about 43% of its total expected capital expenditures in USD. The forward currency contract balances vary with the level of expected foreign currency capital expenditures and changes in foreign exchange forward rates.

*Cash flow hedge under IFRS 9 Interest rate risk*

At December 31, 2018, the Group had interest rate swap contracts in place with a notional amount of USD1,102 million whereby the Group receives interest at variable rates and pays interest at fixed rates. The swaps are being used to hedge against the variability in the cash flows arising from a change in market interest rates of obligations under finance leases with a face value of USD1,094 million.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the forward currency contracts and interest rate swap contracts match the terms of the expected foreign currency capital expenditures and the finance leases (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the forward currency contracts and interest rate swaps are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

Differences in the timing of the cash flows of the forecasted transactions and the hedging instruments

Different interest rate curves applied to discount the hedged items and hedging instruments

The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items

Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

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|  | Maturity              |                  |                  |                   |                 | Total  |
|--|-----------------------|------------------|------------------|-------------------|-----------------|--------|
|  | Less than<br>3 months | 3 to 6<br>months | 6 to 9<br>months | 9 to 12<br>months | Over 1<br>years |        |
| <u>As at December 31, 2018</u>                         |                       |                  |                  |                   |                 |        |
| Forward currency contracts (capital expenditures)      |                       |                  |                  |                   |                 |        |
| Notional amount (in RMB million)                       | 1,077                 |                  | 672              | 2,746             |                 | 4,495  |
| Average forward rate (RMB/USD)                         | 6.9542                |                  | 6.9336           | 6.9000            |                 | 6.9180 |
| Interest rate swaps (obligations under finance leases) |                       |                  |                  |                   |                 |        |
| Notional amount (in RMB million)                       |                       | 33               | 32               |                   | 7,501           | 7,566  |
| Hedged rate (%)  |                       | 1.8574           | 1.9100           |                   | 1.6886          | 1.6903 |

The Group holds the following forward currency contracts and interest rate swap contracts:

The impacts of the hedging instruments on the statement of financial position are as follows:

|                                | Notional<br>amount<br><i>RMB million</i> | Carrying<br>amount<br><i>RMB million</i> | Line item in the statement<br>of<br>financial position | Change in<br>fair value used<br>for<br>measuring<br>hedge<br>ineffectiveness<br>for the<br>year<br><i>RMB million</i> |
|--------------------------------|--|--|--|---|
| <u>As at December 31, 2018</u> |  |  |  |   |
| Forward currency contracts     | 4,495                                    | (29)                                     | Derivative financial<br>instruments (liabilities)      | (28)  |
| Interest rate swaps            | 7,566                                    | 223                                      | Derivative financial<br>instruments (assets)           | 92  |

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## 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impacts of the hedged items on the statement of financial position are as follows:

|                                  | Change in fair value used for measuring<br>hedge ineffectiveness |                         |
|----------------------------------|--|-------------------------|
|                                  | for the year   | Cash flow hedge reserve |
|                                  | RMB million  | RMB million             |
| <u>As at December 31, 2018</u>   |  |                         |
| Capital expenditures             | 29   | (29)                    |
| Obligations under finance leases | (95)   | 223                     |
|                                  | (66)   | 194                     |

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

|                                     | Total hedging<br>gain/(loss) |               | Hedge<br>ineffectiveness<br>recognized<br>in statement<br>of profit<br>or loss | Amount reclassified<br>from other<br>comprehensive income to profit<br>or loss |               |             | Line item<br>(gross amount) in<br>the statement<br>of<br>profit or loss |
|-------------------------------------|------------------------------|---------------|--|--|---------------|-------------|---|
|                                     | Gross<br>amount              | Tax<br>effect |  | Gross<br>amount  | Tax<br>effect | Total       |   |
|                                     | RMB million                  | RMB million   | RMB million  | RMB million  | RMB million   | RMB million |   |
| <u>Year ended December 31, 2018</u> |                              |               |  |  |               |             |   |
| Capital expenditures                | (28)                         | 7             | (21)   | N/A  | (1)           | (1)         | Finance Costs   |
| Obligations under finance leases    | 92                           | (23)          | 69   | N/A  | (6)           | (4)         | Finance Costs   |

*Fair value hedge under IFRS 9 Foreign currency risk*

At January 1, 2018, the Group had forward currency contracts in place with a notional amount of USD829 million, whereby it receives the notional amount in USD and pays the converted notional amount in RMB at the pre-determined exchange rates. The forward currency contracts are used to hedge the exposure to changes in fair value of its USD denominated bank loans notional amount in RMB of USD829 million. There is an economic relationship between the hedged item and the hedging instrument as the terms of the forward currency contracts match the terms of the fixed rate loan (i.e., notional amount and maturity). The Group has established a hedge ratio of 1:1 for the hedging

relationships as the underlying risk of the forward currency contracts is identical to that of the hedged risk component. The hedge of forward currency contracts was assessed to be effective.

All the above forward currency contracts were settled during this reporting period, resulting in a total amount of RMB311 million of fair value changes of hedging instruments in 2018.

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## 26 OTHER NON-CURRENT ASSETS

|   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---|-----------------------------------|-----------------------------------|
| Deposits relating to aircraft held under operating leases   | 177                               | 217                               |
| Deferred pilot recruitment costs                            | 1,536                             | 1,288                             |
| Rebate receivables on aircraft acquisitions                 | 55                                | 65                                |
| Prepayment for acquisition of property, plant and equipment | 854                               | 681                               |
| Others  | 748                               | 676                               |
|   | 3,370                             | 2,927                             |

## 27 DEFERRED TAXATION

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

|                          | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|--------------------------|-----------------------------------|-----------------------------------|
| Deferred tax assets      | 207                               | 122                               |
| Deferred tax liabilities | (84)                              | (18)                              |
| Net deferred tax assets  | 123                               | 104                               |

Movements in the net deferred tax assets/(liabilities) were as follows:

|                               | <b>2018</b><br><i>RMB million</i> |
|-------------------------------|-----------------------------------|
| At December 31, 2017          | 104                               |
| Effect of adoption of IFRS 9  | (216)                             |
| Effect of adoption of IFRS 15 | (128)                             |

|                                       |       |
|---------------------------------------|-------|
| At January 1, 2018                    | (240) |
| Credited to profit or loss (note 14)  | 294   |
| Charged to other comprehensive income | 69    |
| At December 31, 2018                  | 123   |

|                                       |                           |
|---------------------------------------|---------------------------|
|                                       | <b>2017</b>               |
|                                       | <b><i>RMB million</i></b> |
| At January 1, 2017                    | (7)                       |
| Credited to profit or loss (note 14)  | 162                       |
| Charged to other comprehensive income | (51)                      |
| At December 31, 2017                  | 104                       |



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## 27 DEFERRED TAXATION (continued)

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

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| Deferred tax assets:   |                    |                    |
| Impairment provision for flight equipment spare parts                          | 126                | 51                 |
| Impairment provision for receivables   | 75                 | 64                 |
| Impairment provision for property, plant and equipment                         | 103                | 104                |
| Derivative financial instruments   | 7                  | 82                 |
| Financial asset at fair value through profit or loss                           | 6                  |                    |
| Other payables and accruals  | 89                 | 29                 |
| Government grants related to assets  | 42                 |                    |
| Deferred gains in sale and leaseback transactions                              | 6                  |                    |
| Aged payables  | 2                  | 5                  |
|  | 456                | 335                |
| Deferred tax liabilities:  |                    |                    |
| Depreciation and amortization  |                    | (56)               |
| Available-for-sale investments   |                    | (137)              |
| Equity investments designated at fair value through other comprehensive income | (278)              |                    |
| Derivative financial instruments   | (55)               | (38)               |
|  | (333)              | (231)              |
|  | 123                | 104                |

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## 27 DEFERRED TAXATION (continued)

Movements in the net deferred tax assets/(liabilities) of the Group for the year were as follows:

|  | At<br>December 31<br>2017 | Effect<br>of<br>adoption of<br>IFRS 9 | Effect<br>of<br>adoption of<br>IFRS 15 | At January 1<br>2018<br>(restated) | (Charged)/<br>Credited to<br>profit or loss | (Charged)/<br>Credited to<br>other<br>comprehensive<br>income | At<br>December 31<br>2018 |
|--|---------------------------|---------------------------------------|--|------------------------------------|---|---|---------------------------|
|  | RMB million               | RMB million                           | RMB million                            | RMB million                        | RMB million                                 | RMB million   | RMB million               |
| For the year ended<br>December 31, 2018  |                           |                                       |  |                                    |   |   |                           |
| Impairment provision for flight<br>equipment spare parts                             | 51                        |                                       |  | 51                                 | 75  |   | 126                       |
| Impairment provision for<br>receivables  | 64                        | 8                                     |  | 72                                 | 3   |   | 75                        |
| Impairment provision for<br>property, plant and equipment                            | 104                       |                                       |  | 104                                | (1)   |   | 103                       |
| Derivative financial<br>instruments  | 82                        |                                       |  | 82                                 | (78)  | 3   | 7                         |
| Financial asset at fair value<br>through profit or loss                              |                           |                                       |  |                                    | 6   |   | 6                         |
| Other payables and accruals  | 29                        |                                       |  | 29                                 | 60  |   | 89                        |
| Government grants related to<br>assets   |                           |                                       |  |                                    | 42  |   | 42                        |
| Deferred gains in sale and<br>leaseback transactions                                 |                           |                                       |  |                                    | 6   |   | 6                         |
| Aged payables  | 5                         |                                       |  | 5                                  | (3)   |   | 2                         |
|  | 335                       | 8                                     |  | 343                                | 110   | 3   | 456                       |
| Depreciation and amortization  | (56)                      |                                       |  | (56)                               | 56  |   |                           |
| Available-for-sale investments   | (137)                     | 137                                   |  |                                    |   |   |                           |
| Equity investments designated<br>at fair value through other<br>comprehensive income |                           |                                       | (361)                                  | (361)                              |   | 83  | (278)                     |
| Derivative financial<br>instruments  | (38)                      |                                       |  | (38)                               |   | (17)  | (55)                      |
| Passenger ticket breakage  |                           |                                       | (128)                                  | (128)                              | 128   |   |                           |

|                                       |       |       |       |       |     |    |       |
|---------------------------------------|-------|-------|-------|-------|-----|----|-------|
|                                       | (231) | (224) | (128) | (583) | 184 | 66 | (333) |
| Net deferred tax assets/(liabilities) | 104   | (216) | (128) | (240) | 294 | 69 | 123   |

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## 27 DEFERRED TAXATION (continued)

Movements in the net deferred tax assets/(liabilities) of the Group for the year were as follows (continued):

|  | At<br>January 1<br>2017<br><i>RMB million</i> | (Charged)/<br>credited to<br>profit or loss<br><i>RMB million</i> | (Charged)/<br>credited to other<br>comprehensive<br>income<br><i>RMB million</i> | At<br>December 31<br>2017<br><i>RMB million</i> |
|--|---|---|--|---|
| For the year ended December 31, 2017                   |   |   |  |   |
| Impairment provision for flight equipment spare parts  | 22  | 29  |  | 51  |
| Impairment provision for receivables                   | 70  | (6)   |  | 64  |
| Impairment provision for property, plant and equipment | 11  | 93  |  | 104   |
| Derivative financial instruments                       | 15  | 78  | (11)   | 82  |
| Other payables and accruals                            | 88  | (59)  |  | 29  |
| Aged payables  | 7   | (2)   |  | 5   |
|  | 213   | 133   | (11)   | 335   |
| Depreciation and amortization                          | (85)  | 29  |  | (56)  |
| Available-for-sale investments                         | (98)  |   | (39)   | (137)   |
| Derivative financial instruments                       | (37)  |   | (1)  | (38)  |
|  | (220)   | 29  | (40)   | (231)   |
| Net deferred tax assets/(liabilities)                  | (7)   | 162   | (51)   | 104   |

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## 27 DEFERRED TAXATION (continued)

As at the reporting date, the Group had the following balances in respect of which deferred tax assets have not been recognized:

|   | 2018                 |                          | 2017                 |                          |
|---|----------------------|--------------------------|----------------------|--------------------------|
|   | Deferred<br>taxation | Temporary<br>differences | Deferred<br>taxation | Temporary<br>differences |
|   | <i>RMB million</i>   | <i>RMB million</i>       | <i>RMB million</i>   | <i>RMB million</i>       |
| Tax losses carried forward                    | 67                   | 267                      | 42                   | 167                      |
| Other deductible temporary differences        | 27                   | 126                      | 6                    | 27                       |
| <b>Total unrecognized deferred tax assets</b> | <b>94</b>            | <b>393</b>               | <b>48</b>            | <b>194</b>               |

In accordance with the PRC tax law, tax losses can be carried forward for a period of five years to offset against future taxable income. The Group's tax losses carried forward will expire between 2019 and 2023.

As at December 31, 2018, management carried out an assessment to determine whether future taxable profits will be available to utilize the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operating results, such as future fuel prices and market competition, management assessed that for certain subsidiaries there are significant uncertainties that future taxable profits will be available and the deferred tax assets arising from aforementioned tax losses and deductible temporary differences were not recognized.

## 28 FLIGHT EQUIPMENT SPARE PARTS

|                                 | 2018               | 2017               |
|---------------------------------|--------------------|--------------------|
|                                 | <i>RMB million</i> | <i>RMB million</i> |
| Flight equipment spare parts    | 2,778              | 2,716              |
| Less: provision for spare parts | (828)              | (531)              |
|                                 | <b>1,950</b>       | <b>2,185</b>       |

Movements in the Group's provision for impairment of flight equipment spare parts were as follows:

| 2018 | 2017 |
|------|------|
|------|------|

|   | <i>RMB million</i> | <i>RMB million</i> |
|---|--------------------|--------------------|
| At January 1  | 531                | 465                |
| Accrual (note 8)  | 301                | 112                |
| Amount written off in relation to disposal of spare parts | (4)                | (1)                |
| Disposal of a subsidiary                                  |                    | (45)               |
| At December 31  | 838                | 531                |

## 29 TRADE AND NOTES RECEIVABLES

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

|                   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|-------------------|-----------------------------------|-----------------------------------|
| Trade receivables | 1,525                             | 2,212                             |
| Notes receivable  | 4                                 |                                   |
|                   | 1,529                             | 2,212                             |
| Impairment        | (93)                              | (88)                              |
|                   | 1,436                             | 2,124                             |

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice/billing date and net of loss allowance, is as follows:

|                 | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|-----------------|-----------------------------------|-----------------------------------|
| Within 90 days  | 1,354                             | 1,910                             |
| 91 to 180 days  | 52                                | 38                                |
| 181 to 365 days | 11                                | 94                                |
| Over 365 days   | 15                                | 82                                |
|                 | 1,432                             | 2,124                             |

Balances with related parties included in trade and notes receivables are summarized in note 49(c)(i).

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## 29 TRADE AND NOTES RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| At beginning of year                                     | 88                 | 115                |
| Effect of adoption of IFRS 9                             | 31                 |                    |
| At beginning of year (restated)                          | 119                | 115                |
| Impairment losses, net (note 9)                          | (21)               | (3)                |
| Amount written off as uncollectible                      | (5)                | (13)               |
| Disposal of a subsidiary                                 |                    | (5)                |
| Provision included in assets classified as held for sale |                    | (6)                |
| At end of year   | 93                 | 88                 |

*Impairment under IFRS 9 for the year ended December 31, 2018*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at December 31, 2018

|                                      | Current | Past due          |               | Total |       |
|--------------------------------------|---------|-------------------|---------------|-------|-------|
|                                      |         | Less than 90 days | Over 365 days |       |       |
| Expected credit loss rate (%)        | 0.57    | 0.78              | 1.59          | 83.17 | 6.10  |
| Gross carrying amount (RMB million)  | 1,232   | 129               | 63            | 101   | 1,525 |
| Expected credit losses (RMB million) | 7       | 1                 | 1             | 84    | 93    |

*Impairment under IAS 39 for the year ended December 31, 2017*

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at December 31, 2017 was a provision for individually impaired trade receivables of RMB46 million with a carrying amount before provision of RMB46 million.

The remaining provision of RMB42 million related to impaired trade receivables with a carrying amount before provision of RMB123 million as at December 31, 2017 for customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

As at December 31, 2017, trade and notes receivables of RMB131 million were past due but not impaired and related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The aging analysis of these trade and notes receivables was as follows:

|                   | <b>2017</b>               |
|-------------------|---------------------------|
|                   | <b><i>RMB million</i></b> |
| Past due:         |                           |
| Less than 90 days | 38                        |
| 90 to 180 days    | 93                        |

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

The net impacts of recognition and reversal of provisions for impaired receivables have been included in Impairment charges in profit or loss (note 9). Amounts charged to the allowance account are generally written off when there is no expectation of recovering.



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## 30 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| Listed equity investment, at fair value    |                    |                    |
| Shanghai Pudong Development Bank Co., Ltd. | 96                 |                    |

The above equity investment at December 31, 2018 was classified as financial asset at fair value through profit or loss as it was held for trading.

## 31 PREPAYMENTS AND OTHER RECEIVABLES

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| Value added tax recoverable                               | 5,484              | 3,662              |
| Value added tax refundable                                | 979                | 1,387              |
| Subsidy receivable  | 2,092              | 1,450              |
| Prepaid corporate income tax                              | 306                | 139                |
| Advance to suppliers                                      | 222                | 218                |
| Prepaid aircraft operating lease rentals                  | 478                | 319                |
| Rebate receivables on aircraft acquisitions               | 1,399              | 944                |
| Amounts due from related parties (note 49(c)(i))          | 278                | 569                |
| Deposits relating to aircraft held under operating leases | 13                 | 76                 |
| Other deposits  | 194                | 200                |
| Others  | 577                | 548                |
|   | 12,022             | 9,512              |
| Provision for impairment of other receivables             | (246)              | (198)              |
|   | 11,776             | 9,314              |

Set out below are the movements of loss allowances measured at 12-month and lifetime expected credit losses for the financial assets included in other receivables.

|                          | 12-month ECLs  |         | Lifetime ECLs  |         | Total |
|--------------------------|----------------|---------|----------------|---------|-------|
|                          | Stage 1        | Stage 2 | Stage 2        | Stage 3 |       |
|                          | (Individually) |         | (Collectively) |         |       |
| As at January 1, 2018    | 4              |         | 72             | 122     | 198   |
| Transferred - to stage 2 | (1)            |         | 1              |         |       |
| Accrual                  | 13             |         | 36             |         | 49    |
| Reversal                 |                |         | (1)            |         | (1)   |
| As at December 31, 2018  | 16             |         | 108            | 122     | 246   |

The gross carrying amounts of the financial assets affecting the loss allowances above are as follows.

|                          | 12-month ECLs  |         | Lifetime ECLs  |         | Total |
|--------------------------|----------------|---------|----------------|---------|-------|
|                          | Stage 1        | Stage 2 | Stage 2        | Stage 3 |       |
|                          | (Individually) |         | (Collectively) |         |       |
| As at January 1, 2018    | 2,394          |         | 25             | 122     | 2,541 |
| Transferred - to stage 2 | (399)          | 298     | 101            |         |       |
| Accrual                  | 303            |         | 138            |         | 441   |
| Reversal                 |                |         | (5)            |         | (5)   |
| As at December 31, 2018  | 2,298          | 298     | 259            | 122     | 2,977 |

### 32 ASSETS CLASSIFIED AS HELD FOR SALE

The Group entered into agreements with China Aviation Equipment Co., Ltd. ( China Aviation Materials ) to dispose of certain flight equipment. The flight equipment with an aggregate carrying amount of RMB11 million (2017: Nil) has been recognized as assets classified as held for sale by the Group as at December 31, 2018, which are stated at the lower of their carrying amounts and their fair value less cost to sell.

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## 33 RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS

|                          | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|--------------------------|-----------------------------------|-----------------------------------|
| Restricted bank deposits | 16                                | 51                                |

## 34 CASH AND CASH EQUIVALENTS

|               | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---------------|-----------------------------------|-----------------------------------|
| Cash          | 1                                 | 2                                 |
| Bank balances | 645                               | 4,603                             |
|               | 646                               | 4,605                             |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB330 million (2017: RMB3,239 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks and financial institutions with no recent history of default.

## 35 TRADE AND BILLS PAYABLES

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

|                | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|----------------|-----------------------------------|-----------------------------------|
| Within 90 days | 3,594                             | 2,791                             |
| 91 to 180 days | 49                                | 59                                |

|                 |       |       |
|-----------------|-------|-------|
| 181 to 365 days | 157   | 161   |
| 1 to 2 years    | 100   | 71    |
| Over 2 years    | 140   | 102   |
|                 | 4,040 | 3,184 |

Balances with related parties included in trade and bills payables are summarized in Note 49(c)(ii).

As at December 31, 2018, bills payable amounted to RMB4 million (2017: RMB1,173 million).

### 36 CONTRACT LIABILITIES

|                                    | <b>2018</b><br><b>RMB million</b> |
|------------------------------------|-----------------------------------|
| Sales in advance of carriage       | 7,638                             |
| Frequent flyer program liabilities | 2,046                             |
| Advance from customers             | 712                               |
|                                    | 10,396                            |
| Current portion                    | 8,811                             |
| Non-current portion                | 1,585                             |

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## 37 OTHER PAYABLES AND ACCRUALS

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| Salaries, wages and benefits  | 2,854              | 2,711              |
| Take-off and landing charges  | 2,828              | 2,707              |
| Fuel cost   | 1,225              | 1,369              |
| Expenses related to aircraft overhaul conducted                     | 1,324              | 1,760              |
| Deposits from customers   | 6                  | 1,342              |
| Duties and levies payable   | 1,792              | 1,483              |
| Other accrued operating expenses                                    | 2,111              | 1,848              |
| Payable for purchase of property, plant and equipment               | 2,783              | 290                |
| Interest payable  | 1,189              | 1,084              |
| Pending output value added tax                                      | 378                |                    |
| Deposits received from ticket sales agents                          | 502                | 549                |
| Current portion of other long-term liabilities (note 42)            | 234                | 1,038              |
| Staff housing allowance   | 265                | 301                |
| Amounts due to related parties (note 49(c)(ii))                     | 1,093              | 2,111              |
| Current portion of post-retirement benefit obligations (note 41(b)) | 168                | 168                |
| Others  | 2,391              | 1,103              |
|   | <b>21,143</b>      | <b>19,864</b>      |

## 38 OBLIGATIONS UNDER FINANCE LEASES

As at December 31, 2018, the Group had 260 aircraft (2017: 235 aircraft) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in USD.

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

| <b>Minimum lease</b> | <b>Present values</b> | <b>Minimum lease</b> | <b>Present values</b> |
|----------------------|-----------------------|----------------------|-----------------------|
|----------------------|-----------------------|----------------------|-----------------------|

|  | <b>payments</b><br><b>2018</b><br><b>RMB</b><br><b>million</b> | <b>of</b><br><b>minimum</b><br><b>lease payments</b><br><b>2018</b><br><b>RMB</b><br><b>million</b> | <b>payments</b><br><b>2017</b><br><b>RMB</b><br><b>million</b> | <b>of</b><br><b>minimum</b><br><b>lease payments</b><br><b>2017</b><br><b>RMB</b><br><b>million</b> |
|--|--|---|--|---|
| Within one year                            | 11,974   |   | 11,651   |   |
| In the second year                         | 12,014   |   | 10,408   |   |
| In the third to fifth years,<br>inclusive  | 30,018   |   | 27,895   |   |
| After the fifth year                       | 36,974   |   | 30,196   |   |
| <b>Total</b>                               | <b>90,980</b>  | <b>77,427</b>   | <b>80,150</b>  | <b>66,868</b>   |
| Less: amounts repayable within<br>one year | (11,974)   | (9,364)   | (11,696)   | (9,241)   |
| <b>Non-current portion</b>                 | <b>79,006</b>  | <b>68,063</b>   | <b>68,454</b>  | <b>57,627</b>   |

## 39 BORROWINGS

|  | <b>2018</b><br><b>RMB million</b> | <b>2017</b><br><b>RMB million</b> |
|--|-----------------------------------|-----------------------------------|
| <b>Non-current</b>                           |                                   |                                   |
| Long-term bank borrowings                    |                                   |                                   |
| secured (note (a))                           | 3,934                             | 4,816                             |
| unsecured                                    | 4,556                             | 108                               |
| Guaranteed bonds (note (b))                  | 13,377                            | 10,956                            |
| Unsecured bonds (note (b))                   | 4,000                             | 8,831                             |
|  | <b>25,867</b>                     | <b>24,711</b>                     |
| <b>Current</b>                               |                                   |                                   |
| Current portion of long-term bank borrowings |                                   |                                   |
| secured (note (a))                           | 997                               | 1,028                             |
| unsecured                                    | 76                                | 3,103                             |
| Current portion of Guaranteed bonds          | 732                               |                                   |
| Current portion of unsecured bonds           | 4,834                             |                                   |
| Short-term bank borrowings                   |                                   |                                   |
| unsecured                                    | 8,120                             | 24,959                            |
| Short-term debentures (note (c))             | 14,500                            | 10,000                            |
|  | <b>29,259</b>                     | <b>39,090</b>                     |
|  | <b>55,126</b>                     | <b>63,801</b>                     |

## NOTES TO THE FINANCIAL STATEMENTS

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## 39 BORROWINGS (continued)

The borrowings are repayable as follows:

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> |
| Within one year                        | 29,259             | 39,090             |
| In the second year                     | 7,469              | 6,527              |
| In the third to fifth years, inclusive | 14,258             | 8,797              |
| After the fifth year                   | 4,140              | 9,387              |
| <b>Total borrowings</b>                | <b>55,126</b>      | <b>63,801</b>      |

Notes:

- (a) As at December 31, 2018, the secured bank borrowings of the Group were secured by the related aircraft and buildings with a net carrying amount of RMB8,391 million (2017: RMB8,379 million) (note 17).
- (b) On March 18, 2013, the Company issued ten-year guaranteed bonds with a principal amount of RMB4.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 5.05% per annum, which is payable annually. The principal of the bonds will mature and become repayable on March 18, 2023. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (note 49(d)).

On June 15, 2016, the Company issued three-year medium-term bonds with a principal amount of RMB3 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.15% per annum, which is payable annually. The principal of the bonds will mature and become repayable on June 15, 2019.

On July 14, 2016, the Company issued five-year medium-term bonds with a principal amount of RMB4 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.39% per annum, which is payable annually. The principal of the bonds will mature and become repayable on July 14, 2021.

On July 20, 2016, the Company issued three-year medium-term bonds with a principal amount of RMB1.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.00% per annum, which is payable annually. The principal of the bonds will mature and become repayable on July 20, 2019.

On September 28, 2016, the Company issued three-year guaranteed notes with a principal amount of KRW120 billion, at an issue price equal to the face value of the notes. The notes bear interest at the rate of 2.05% per annum, which is payable semi-annually. The principal of the notes will mature and become repayable on September 28, 2019. Korean Development Bank has unconditionally and irrevocably guaranteed the due payment and performance of the above notes.

On September 28, 2016, the Company issued three-year notes with a principal amount of KRW55 billion, at an issue price equal to the face value of the notes. The notes bear interest at the rate of 2.85% per annum, which is payable semi-annually. The principal of the notes will mature and become repayable on September 28, 2019.

On October 24, 2016, the Company issued ten-year corporate bonds with a total principal amount of RMB3 billion, of which bonds of RMB1.5 billion bear interest at the rate of 3.03% per annum and the remaining bonds of RMB1.5 billion bear interest at the rate of 3.30% per annum. The bonds interest is payable annually. The principal of the bonds will mature and become repayable on October 24, 2026. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (note 49(d)).

On November 16, 2017, Eastern Air Overseas issued three-year corporate bonds with a principal amount of SGD500 million, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 2.80% per annum, which is payable semi-annually. The principal of the bonds will mature and become repayable on November 16, 2020. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (note 49(d)).

On March 16, 2018, the Company issued three-year Credit Enhanced bonds with a total principal amount of JPY10 billion, The bonds bear interest at the rate of 0.33% per annum, which is payable semi-annually. The principal of the bonds will mature and become repayable on March 16, 2021. Sumitomo Mitsui Banking Corporation (Hong Kong) has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On March 16, 2018, the Company issued three-year Credit Enhanced bonds with a total principal amount of JPY 20 billion, The bonds bear interest at the rate of 0.64% per annum, which is payable semi-annually. The principal of the bonds will mature and become repayable on March 16, 2021. The bonds are secured by a standby letter of credit issued by Bank of China Limited acting through its Tokyo Branch.



## NOTES TO THE FINANCIAL STATEMENTS

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## 39 BORROWINGS (continued)

Notes: (continued)

On March 16, 2018, the Company issued three-year Credit Enhanced bonds with a total principal amount of JPY 20 billion. The bonds bear interest at the rate of 0.64% per annum, which is payable semi-annually. The principal of the bonds will mature and become repayable on March 16, 2021. The bonds are secured by a standby letter of credit issued by Industrial and Commercial Bank of China Limited acting through its Shanghai Municipal Branch.

(b) On July 23, 2018, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 3.95% per annum.

On September 14, 2018, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 180 days. The debentures bear interest at the rate of 3.20% per annum.

On September 20, 2018, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 252 days. The debentures bear interest at the rate of 3.65% per annum.

On October 26, 2018, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 180 days. The debentures bear interest at the rate of 3.10% per annum.

On November 29, 2018, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 180 days. The debentures bear interest at the rate of 2.99% per annum.

On December 17, 2018, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 180 days. The debentures bear interest at the rate of 2.96% per annum.

The terms of the long-term borrowings and bonds were summarized as follows:

| <b>Interest rate and final maturities</b> |  | <b>2018</b>        | <b>2017</b>        |
|---|--|--------------------|--------------------|
|   |  | <b>RMB million</b> | <b>RMB million</b> |
| <b>Long-term bank borrowings</b>          |  |                    |                    |
| RMB denominated                           | interest rates ranging from 2.65% to 4.25% with final maturities through 2021 (2017: 3.10% to 3.48%) | 4,528              | 3,028              |
| USD denominated                           | interest rates ranging from 6-month libor +0.55% to 6-month libor +2.85% with                        | 1,469              | 2,003              |

|                         |   |        |        |
|-------------------------|---|--------|--------|
|                         | final maturities through 2025 (2017: 6-month libor +0.55% to 6-month libor +2.85%)                        |        |        |
| EUR denominated         | interest rates at 3 months Euribor+0.5% with final maturities through 2026 (2017: 3 months Euribor+0.5%)  | 3,566  | 4,024  |
| <b>Guaranteed bonds</b> |   |        |        |
| RMB denominated         | interest rates ranging from 3.03% to 5.05% with final maturities through 2026 (2017: 3.03% to 5.05%)      | 7,795  | 7,794  |
| SGD denominated         | interest rates at 2.80% with final maturities through 2020  | 2,498  | 2,435  |
| JPY denominated         | interest rates ranging from 0.33% to 0.64% with final maturities through 2021                             | 3,084  |        |
| KRW denominated         | interest rate at 2.05% with final maturities through 2019 (2017: 2.05%)                                   | 732    | 727    |
| <b>Unsecured bonds</b>  |   |        |        |
| RMB denominated         | interest rates ranging from 3.00% to 3.39% with final maturities through 2021 (2017: from 3.00% to 3.39%) | 8,500  | 8,500  |
| KRW denominated         | interest rate at 2.85% with final maturities through 2019 (2017: 2.85%)                                   | 334    | 331    |
|                         |   | 32,506 | 28,842 |

Short-term borrowings of the Group are repayable within one year. As at December 31, 2018, the interest rates relating to such borrowings ranged from 2.97% to 4.48% per annum (2017: 0.70% to 4.35% per annum).

## NOTES TO THE FINANCIAL STATEMENTS

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## 40 PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES

|                       | <b>2018</b>        | <b>2017</b>        |
|-----------------------|--------------------|--------------------|
|                       | <i>RMB million</i> | <i>RMB million</i> |
| At January 1          | 3,019              | 3,670              |
| Accrual               | 402                | 1,214              |
| Utilization           | (515)              | (1,865)            |
| At December 31        | 2,906              | 3,019              |
| Less: current portion | (145)              | (981)              |
| Long-term portion     | 2,761              | 2,038              |

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. The balance as at December 31, 2018 and 2017 represented the provision for the estimated cost of these return condition checks which is made on a straight-line basis over the term of the leases.

## 41 POST-RETIREMENT BENEFIT OBLIGATIONS

## (a) Pension - defined contribution

The group companies participate in defined contribution retirement schemes organized by municipal governments of various provinces in which the group companies operate. Substantially all of the Group's PRC employees are eligible to participate in these defined contribution retirement schemes. In addition, the group companies implemented an additional defined contribution retirement pension scheme for eligible employees since 2014.

## (b) Post-retirement benefits

In addition to the above schemes, the Group provides eligible retirees with other post-retirement benefits, including retirement subsidies, transportation allowance as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognized by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and etc.

The plan is exposed to interest rate risk and the risk of changes in the life expectancy for pensioners.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at December 31, 2018 with assistance from a third party consultant using the projected unit credit actuarial valuation method.

The post-retirement benefit obligations recognized in the consolidated statement of financial position are as follows:

|                                     | <b>2018</b>               | <b>2017</b>               |
|-------------------------------------|---------------------------|---------------------------|
|                                     | <i><b>RMB million</b></i> | <i><b>RMB million</b></i> |
| Post-retirement benefit obligations | 2,712                     | 2,670                     |
| Less: current portion               | (168)                     | (168)                     |
| Non-current portion                 | 2,544                     | 2,502                     |

The principal actuarial assumptions utilized as at the end of the reporting period are as follows:

|  | <b>2018</b>   | <b>2017</b>   |
|--|---|---|
| Discount rates for post-retirement benefits              | 3.50%   | 4.10%   |
| Mortality rate   | China Insurance Life Mortality Table (2010-2013). CL5 for Male and CL6 for Female | China Insurance Life Mortality Table (2010-2013). CL5 for Male and CL6 for Female |
| Annual increase rate of post-retirement medical expenses | 6.50%   | 6.50%   |
| Inflation rate of pension benefits                       | 2.50%   | 2.50%   |

## NOTES TO THE FINANCIAL STATEMENTS

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## 41 POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

## (b) Post-retirement benefits (continued)

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

|  | Increase<br>in rate<br>% | Increase/<br>(decrease) in<br>post-retirement<br>benefit<br>obligations<br>RMB<br>million | Decrease<br>in rate<br>% | Increase/<br>(decrease) in<br>post-retirement<br>benefit<br>obligations<br>RMB<br>million |
|--|--------------------------|---|--------------------------|---|
| <b>2018</b>                                |                          |   |                          |   |
| Discount rate for post-retirement benefits | 0.25                     | (80)  | 0.25                     | 84  |
| Annual increase rate of pension benefits   | 1.00                     | 288   | 1.00                     | (244)   |
| Annual increase rate of medical expenses   | 1.00                     | 41  | 1.00                     | (34)  |
| <b>2017</b>                                |                          |   |                          |   |
| Discount rate for post-retirement benefits | 0.25                     | (73)  | 0.25                     | 77  |
| Annual increase rate of pension benefits   | 1.00                     | 283   | 1.00                     | (240)   |
| Annual increase rate of medical expenses   | 1.00                     | 40  | 1.00                     | (33)  |

The sensitivity analyzes above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

|                                | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|--------------------------------|-----------------------------------|-----------------------------------|
| Within the next 12 months      | 168                               | 168                               |
| Between 2 and 5 years          | 678                               | 679                               |
| Between 6 and 10 years         | 841                               | 851                               |
| Over 10 years                  | 2,802                             | 3,049                             |
| <b>Total expected payments</b> | <b>4,489</b>                      | <b>4,747</b>                      |

The average duration of the post-retirement benefit obligations at the end of 2018 was 13 years (2017: 13 years).

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## NOTES TO THE FINANCIAL STATEMENTS

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## 41 POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

## (b) Post-retirement benefits (continued)

The movements in the post-retirement benefit obligations were as follows:

|      | Pension cost charged to profit or loss |              |                                      | Actuarial changes included in profit or loss                      |   | Remeasurement (gains)/losses in other comprehensive income arising from changes in demographic assumptions |  | Sub-total included in other comprehensive income |                 | Benefit settled | December 31 |
|------|--|--------------|--------------------------------------|---|---|--|--|--|-----------------|-----------------|-------------|
|      | Service cost                           | Net interest | Sub-total included in profit or loss | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in demographic assumptions | Experience adjustments   | Sub-total included in other comprehensive income | Benefit settled                                  | Transferred out | December 31     |             |
|      | RMB million                            | RMB million  | RMB million                          | RMB million   | RMB million   | RMB million  | RMB million                                      | RMB million                                      | RMB million     | RMB million     |             |
| 2018 | 2,670                                  | 106          | 106                                  | (184)   |   | 69   | 115  | (179)  |                 | 2,712           |             |

|      | Pension cost charged to profit or loss |              |                                      | Actuarial changes included in profit or loss                      |   | Remeasurement (gains)/losses in other comprehensive income arising from changes in demographic assumptions |  | Sub-total included in other comprehensive income |                 | Benefit settled | Transferred out | December 31 |
|------|--|--------------|--------------------------------------|---|---|--|--|--|-----------------|-----------------|-----------------|-------------|
|      | Service cost                           | Net interest | Sub-total included in profit or loss | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in demographic assumptions | Experience adjustments   | Sub-total included in other comprehensive income | Benefit settled                                  | Transferred out | December 31     |                 |             |
|      | RMB million                            | RMB million  | RMB million                          | RMB million   | RMB million   | RMB million  | RMB million                                      | RMB million                                      | RMB million     | RMB million     |                 |             |
| 2017 | 2,670                                  | 106          | 106                                  | (184)   |   | 69   | 115  | (179)  |                 | 2,712           |                 |             |

assumption RMB  
 RMB million  
 million

|  |       |    |    |       |    |       |       |       |       |
|--|-------|----|----|-------|----|-------|-------|-------|-------|
| Defined benefit obligations/ benefit liability | 3,063 | 98 | 98 | (220) | 96 | (124) | (200) | (167) | 2,670 |
|--|-------|----|----|-------|----|-------|-------|-------|-------|

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## NOTES TO THE FINANCIAL STATEMENTS

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## 42 OTHER LONG-TERM LIABILITIES

|  | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|--|-----------------------------------|-----------------------------------|
| Fair value of unredeemed points awarded under the Group's frequent flyer program |                                   | 2,027                             |
| Long-term duties and levies payable relating to finance leases                   | 1,398                             | 1,411                             |
| Deferred gains in sale and leaseback transactions                                | 1,115                             |                                   |
| Other long-term payables   | 1,169                             | 1,324                             |
|  | <b>3,682</b>                      | <b>4,762</b>                      |
| Less: current portion included in other payables and accruals (note 37)          | (234)                             | (1,038)                           |
| Non-current portion  | <b>3,448</b>                      | <b>3,724</b>                      |

## 43 SHARE CAPITAL

|   | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---|-----------------------------------|-----------------------------------|
| Registered, issued and fully paid of RMB1.00 each                       |                                   |                                   |
| A shares listed on The Shanghai Stock Exchange ( A Shares )             | 9,808                             | 9,808                             |
| H shares listed on The Stock Exchange of Hong Kong Limited ( H Shares ) | 4,659                             | 4,659                             |
|   | <b>14,467</b>                     | <b>14,467</b>                     |

Pursuant to articles 49 and 50 of the Company's articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

A summary of movements in the Company's share capital is as follows:

|                      | Number of<br>shares in issue |
|----------------------|------------------------------|
| At January 1, 2018   | 14,467                       |
| Issue of shares      |                              |
| At December 31, 2018 | 14,467                       |

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## NOTES TO THE FINANCIAL STATEMENTS

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## 44 RESERVES

|  | Share<br>premium | Capital<br>reserve<br>(note (a)) | Hedging<br>reserve<br>(note (b)) | Statutory<br>reserve<br>(note (b)) | Other<br>reserves | Retained<br>profits | Total       |
|--|------------------|----------------------------------|----------------------------------|------------------------------------|-------------------|---------------------|-------------|
|  | RMB million      | RMB million                      | RMB million                      | RMB million                        | RMB million       | RMB million         | RMB million |
| At January 1, 2017   | 29,540           | (778)                            | 56                               | 328                                | (2,947)           | 8,784               | 34,983      |
| Unrealized gains on cash flow hedges<br>(note 25)  |                  |                                  | 35                               |                                    |                   |                     | 35          |
| Fair value movements in<br>available-for-sale investments  |                  |                                  |                                  |                                    | 110               |                     | 110         |
| Fair value changes of available-for-sale<br>investments held by an associate   |                  |                                  |                                  |                                    | 10                |                     | 10          |
| Actuarial gains on post-retirement<br>benefit obligations  |                  |                                  |                                  |                                    | 122               |                     | 122         |
| Transfer from retained profits   |                  |                                  |                                  | 212                                |                   | (212)               |             |
| Profit for the year  |                  |                                  |                                  |                                    |                   | 6,342               | 6,342       |
| Final 2016 dividend  |                  |                                  |                                  |                                    |                   | (709)               | (709)       |
| At December 31, 2017   | 29,540           | (778)                            | 91                               | 540                                | (2,705)           | 14,205              | 40,893      |
| Effect of adoption of IFRS 9   |                  |                                  |                                  |                                    | 667               | (22)                | 645         |
| Effect of adoption of IFRS 15  |                  |                                  |                                  |                                    |                   | 383                 | 383         |
| At January 1, 2018 (restated)  | 29,540           | (778)                            | 91                               | 540                                | (2,038)           | 14,566              | 41,921      |
| Unrealized gains on cash flow hedges<br>(note 25)  |                  |                                  | 43                               |                                    |                   |                     | 43          |
| Fair value movements in equity<br>investments designated at fair value<br>through other comprehensive income                       |                  |                                  |                                  |                                    | (248)             |                     | (248)       |
| Fair value changes of equity<br>investments designated at fair value<br>through other comprehensive income<br>held by an associate |                  |                                  |                                  |                                    | (24)              |                     | (24)        |
| Actuarial gains on post-retirement<br>benefit obligations  |                  |                                  |                                  |                                    | (111)             |                     | (111)       |
| Transfer from retained profits   |                  |                                  |                                  | 30                                 |                   | (30)                |             |
| Profit for the year  |                  |                                  |                                  |                                    |                   | 2,698               | 2,698       |
| Final 2017 dividend  |                  |                                  |                                  |                                    |                   | (738)               | (738)       |

|                      |        |       |     |     |         |        |        |
|----------------------|--------|-------|-----|-----|---------|--------|--------|
| At December 31, 2018 | 29,540 | (778) | 134 | 570 | (2,421) | 16,496 | 43,541 |
|----------------------|--------|-------|-----|-----|---------|--------|--------|

Notes:

(a) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of the group restructuring carried out in June 1996 for the purpose of the Company's listing.

(b) Statutory reserve

According to the PRC Company Law, the Company is required to transfer a portion of the profits to the statutory reserve. The transfer to this reserve must be made before distribution of dividends to shareholders and when there are retained profits at the end of the financial year.

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## 45 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

|  | 2018   | 2017   |
|--|--------|--------|
| Percentage of equity interest held by non-controlling interests: |        |        |
| CEA Jiangsu  | 37.44% | 37.44% |
| CEA Yunnan   | 9.64%  | 9.64%  |
| CEA Wuhan  | 40.00% | 40.00% |

|   | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|---|----------------------------|----------------------------|
| Profit for the year allocated to non-controlling interests: |                            |                            |
| CEA Jiangsu   | 114                        | 216                        |
| CEA Yunnan  | 33                         | 67                         |
| CEA Wuhan   | 88                         | 178                        |

|  |    |    |
|--|----|----|
| Dividends paid to non-controlling interests of CEA Jiangsu | 56 | 37 |
| Dividends paid to non-controlling interests of CEA Wuhan   |    | 22 |

|   |       |       |
|---|-------|-------|
| Accumulated balances of non-controlling interests at the reporting dates: |       |       |
| CEA Jiangsu   | 1,471 | 1,416 |
| CEA Yunnan  | 674   | 641   |
| CEA Wuhan   | 1,483 | 1,393 |

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

|         | CEA Jiangsu<br><i>RMB million</i> | CEA Yunnan<br><i>RMB million</i> | CEA Wuhan<br><i>RMB million</i> |
|---------|-----------------------------------|----------------------------------|---------------------------------|
| 2018    |                                   |                                  |                                 |
| Revenue | 9,313                             | 10,523                           | 4,559                           |

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|   |       |         |       |
|---|-------|---------|-------|
| Total expenses  | 9,008 | 10,183  | 4,340 |
| Profit for the year                                   | 305   | 340     | 219   |
| Total comprehensive income for the year               | 297   | 340     | 219   |
| Current assets  | 1,338 | 379     | 237   |
| Non-current assets                                    | 9,460 | 16,018  | 7,048 |
| Current liabilities                                   | 2,116 | 3,213   | 1,634 |
| Non-current liabilities                               | 4,753 | 6,196   | 1,944 |
| Net cash flows from operating activities              | 1,036 | 3,686   | 775   |
| Net cash flows used in investing activities           | (37)  | (592)   | (534) |
| Net cash flows used in financing activities           | (991) | (3,099) | (243) |
| Effect of foreign exchange rate changes, net          |       |         |       |
| Net increase/ (decrease) in cash and cash equivalents | 8     | (5)     | (2)   |

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## 45 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

|  | CEA Jiangsu<br><i>RMB million</i> | CEA Yunnan<br><i>RMB million</i> | CEA Wuhan<br><i>RMB million</i> | China Cargo<br><i>RMB million</i> |
|--|-----------------------------------|----------------------------------|---------------------------------|-----------------------------------|
| <b>2017</b>                                  |                                   |                                  |                                 |                                   |
| Revenue                                      | 8,257                             | 8,939                            | 4,289                           | 507                               |
| Total expenses                               | 7,680                             | 8,244                            | 3,843                           | 462                               |
| Profit for the year                          | 577                               | 695                              | 446                             | 45                                |
| Total comprehensive income for the year      | 580                               | 695                              | 461                             | 45                                |
| Current assets                               | 1,124                             | 1,230                            | 79                              |                                   |
| Non-current assets                           | 9,313                             | 16,171                           | 7,047                           |                                   |
| Current liabilities                          | 2,260                             | 4,471                            | 1,576                           |                                   |
| Non-current liabilities                      | 4,395                             | 6,282                            | 2,067                           |                                   |
| Net cash flows from operating activities     | 1,491                             | 1,230                            | 846                             |                                   |
| Net cash flows used in investing activities  | (588)                             | (274)                            | (156)                           |                                   |
| Net cash flows used in financing activities  | (894)                             | (948)                            | (682)                           |                                   |
| Effect of foreign exchange rate changes, net |                                   |                                  |                                 |                                   |
| Net increase in cash and cash equivalents    | 9                                 | 8                                | 8                               |                                   |

## 46 DISPOSAL OF A SUBSIDIARY

On December 29, 2017, the Company entered into a share transfer agreement with China Eastern Airlines Development Co., Ltd., a wholly-owned subsidiary of CEA Holding, to transfer the 100% equity interest in Shanghai Airlines Hotel Investment Management Co., Ltd. ( Shanghai Airlines Hotel ), a wholly-owned subsidiary of the Company ( the Transfer ). As at February 8, 2018, the Transfer has been completed.

|                           | <b>2018</b><br><b>RMB million</b> |
|---------------------------|-----------------------------------|
| Net assets disposed of:   |                                   |
| Inventory                 | 1                                 |
| Trade receivables         | 2                                 |
| Cash and cash equivalents | 11                                |

|                                  |      |
|----------------------------------|------|
| Trade payables                   | (2)  |
| Other payables and accruals      | (12) |
| Net assets                       |      |
| Gain on disposal of a subsidiary |      |
| Satisfied by:                    |      |
| Cash                             |      |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

|  | <b>2018</b><br><b>RMB million</b> |
|--|-----------------------------------|
| Cash consideration   |                                   |
| Cash and bank balances disposed of   | 11                                |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | (11)                              |



## NOTES TO THE FINANCIAL STATEMENTS

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## 47 NOTES TO THE STATEMENT OF CONSOLIDATED CASH FLOWS

## (a) Cash generated from operations

|  | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> | 2016<br><i>RMB million</i> |
|--|----------------------------|----------------------------|----------------------------|
| Profit before income tax   | 3,856                      | 8,610                      | 6,497                      |
| Adjustments for:   |                            |                            |                            |
| Depreciation of property, plant and equipment and amortization of other non-current assets | 15,084                     | 13,769                     | 12,345                     |
| Amortization of intangible assets  | 160                        | 143                        | 129                        |
| Depreciation of investment properties  | 26                         | 12                         | 11                         |
| Amortization of prepayments for land use rights  | 43                         | 45                         | 63                         |
| Gains on disposal of property, plant and equipment   | (267)                      | (13)                       | (74)                       |
| Gain on disposal of prepayments for land use rights  | (210)                      | (5)                        | (3)                        |
| Gain on disposal of investment in a subsidiary   |                            | (1,754)                    |                            |
| Gain on disposal of investment in an associate   | (5)                        | (12)                       | (12)                       |
| Gain on disposal of available-for-sale investments   |                            | (4)                        | (95)                       |
| Dividend income from equity investments at fair value through other comprehensive income   | (23)                       |                            |                            |
| Dividend income from available-for-sale investments  |                            | (33)                       | (28)                       |
| Dividend income from financial asset at fair value through profit or loss                  | (6)                        |                            |                            |
| Share of results of associates   | (170)                      | (202)                      | (148)                      |
| Share of results of joint ventures   | (34)                       | (49)                       | (39)                       |
| Net foreign exchange losses  | 1,983                      | (2,378)                    | 3,246                      |
| Loss on fair value changes of financial asset at fair value through profit or loss         | 27                         |                            |                            |
| (Gain)/loss on fair value changes of derivative financial instruments                      | (311)                      | 311                        | (2)                        |
| Impairment charges   | 318                        | 494                        | 29                         |
| Impairment losses on financial assets, net   | 27                         | (3)                        |                            |
| Interest income  | (110)                      | (111)                      | (96)                       |
| Interest expense   | 3,727                      | 3,184                      | 2,641                      |

|   |               |               |               |
|---|---------------|---------------|---------------|
| <b>Operating profit before working capital changes</b>                    | 24,115        | 22,004        | 24,464        |
| <b>Changes in working capital</b>   |               |               |               |
| Flight equipment spare parts  | (66)          | (109)         | (202)         |
| Trade and notes receivables   | 708           | (500)         | 208           |
| Prepayments and other receivables   | (2,056)       | (753)         | (839)         |
| Sales in advance of carriage  |               | (569)         | 1,836         |
| Contract liabilities  | 1,051         |               |               |
| Restricted bank deposits and short-term bank deposits                     | 35            | (8)           | (8)           |
| Trade and bills payables  | 856           | 1,725         | (336)         |
| Other payables and accruals   | 36            | 340           | 1,424         |
| Staff housing allowances  | (36)          | 62            | (57)          |
| Other long-term liabilities   | (525)         | (728)         | (883)         |
| Post-retirement benefit obligations                                       | 42            | (217)         | 321           |
| Provision for return condition checks for aircraft under operating leases | (113)         | (139)         | 167           |
| Operating lease deposits  |               |               | 59            |
| <b>Cash generated from operations</b>                                     | <b>24,047</b> | <b>21,108</b> | <b>26,154</b> |

**(b) Major non-cash transactions**

|  | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|--|--------------------|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Finance lease obligations incurred for acquisition of aircraft | 7,945              | 6,865              | 8,838              |

**(c) Changes in liabilities arising from financing activities**

|                                  | <b>Bank and other loans</b> | <b>Obligations under finance leases</b> |
|----------------------------------|-----------------------------|---|
|                                  | <i>RMB million</i>          | <i>RMB million</i>                      |
| At January 1, 2018               | 63,801                      | 66,868                                  |
| Changes from financing cash flow | (9,076)                     | (9,629)                                 |
| Foreign exchange movement        | 401                         | 1,419                                   |
| New finance leases               |                             | 18,769                                  |
| <b>At December 31, 2018</b>      | <b>55,126</b>               | <b>77,427</b>                           |

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## 47 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

## (c) Changes in liabilities arising from financing activities (continued)

|  | <b>Bank and<br/>other loans<br/><i>RMB million</i></b> | <b>Obligations under<br/>finance leases<br/><i>RMB million</i></b> |
|--|--|--|
| At January 1, 2017                             | 56,732   | 61,041   |
| Changes from financing cash flow               | 7,450  | (10,587)   |
| Reclassification as part of the disposal group | (262)  | (409)  |
| Foreign exchange movement                      | (119)  | (2,362)  |
| New finance leases                             |  | 19,185   |
| At December 31, 2017                           | 63,801   | 66,868   |

## 48 COMMITMENTS

## (a) Capital commitments

The Group had the following capital commitments:

|   | <b>2018<br/><i>RMB million</i></b> | <b>2017<br/><i>RMB million</i></b> |
|---|------------------------------------|------------------------------------|
| Contracted for:                               |                                    |                                    |
| Aircraft, engines and flight equipment (Note) | 70,998                             | 87,030                             |
| Other property, plant and equipment           | 6,481                              | 7,572                              |
| Investments                                   | 590                                | 208                                |
|   | 78,069                             | 94,810                             |

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increase built into the contracts, were expected to be paid as follows:

|                    | <b>2018</b>        | <b>2017</b>        |
|--------------------|--------------------|--------------------|
|                    | <i>RMB million</i> | <i>RMB million</i> |
| Within one year    | 29,187             | 28,322             |
| In the second year | 24,735             | 27,516             |
| In the third year  | 11,809             | 19,273             |
| In the fourth year | 4,674              | 7,829              |
| Over four years    | 593                | 4,090              |
|                    | 70,998             | 87,030             |

The above capital commitments represent the future outflow of cash or other resources.

**(b) Operating lease commitments**

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

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| <b>Aircraft, engines and flight equipment</b> |                    |                    |
| Within one year                               | 4,675              | 3,048              |
| In the second year                            | 4,185              | 2,559              |
| In the third to fifth years, inclusive        | 10,854             | 7,112              |
| After the fifth year                          | 12,342             | 7,528              |
|   | 32,056             | 20,247             |
| <b>Land and buildings</b>                     |                    |                    |
| Within one year                               | 398                | 332                |
| In the second year                            | 175                | 164                |
| In the third to fifth years, inclusive        | 59                 | 156                |
| After the fifth year                          | 75                 | 37                 |
|   | 707                | 689                |
|   | 32,763             | 20,936             |

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## 49 RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 35.06% of the Company's shares as at December 31, 2018 (2017: 35.06%). In addition, through CES Global Holdings (Hong Kong) Limited and CES Finance Holding Co., Limited, two wholly-owned subsidiaries of CEA Holding, CEA Holding indirectly owns additional shares of the Company of approximately 18.15% and 3.16% respectively as at December 31, 2018 (2017: 18.15% and 3.16%).

The Company is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 Related Party Disclosures, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CEA Holding and its subsidiaries (other than the Group), other government-related entities and their subsidiaries (Other State-owned Enterprises), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company as well as their close family members.

For the purpose of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

**(a) Nature of related parties that do not control or controlled by the Group:**

| <b>Name of related party</b>  | <b>Relationship with the Group</b> |
|---|------------------------------------|
| Eastern Air Group Finance Co., Ltd. ( Eastern Air Finance Company )   | Associate of the Company           |
| Eastern Aviation Import & Export Co., Ltd. and its subsidiaries<br>( Eastern Import & Export )                          | Associate of the Company           |
| Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. ( Shanghai P&W )   | Associate of the Company           |
| Eastern Aviation Advertising Service Co., Ltd. and its subsidiaries<br>( Eastern Advertising )                          | Associate of the Company           |
| Shanghai Collins Aviation Maintenance Service Co., Ltd. ( Collins Aviation )  | Associate of the Company           |
| CAE Melbourne Flight Training Pty Limited ( CAE Melbourne )   | Joint venture of the Company       |
| Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ( Wheels & Brakes ) | Joint venture of the Company       |
|   | Joint venture of the Company       |

|  |  |
|--|--|
| Shanghai Technologies Aerospace Co., Ltd. ( Technologies Aerospace )                               |  |
| Eastern China Kaiya System Integration Co., Ltd. ( China Kaiya )                                   | Joint venture of the Company   |
| Shanghai Hute Aviation Technology Co., Ltd. ( Shanghai Hute )                                      | Joint venture of the Company   |
| CEA Development Co., Limited and its subsidiaries ( CEA Development )                              | Controlled by the same parent company  |
| China Eastern Air Catering Investment Co., Limited and its subsidiaries ( Eastern Air Catering )   | Controlled by the same parent company  |
| CES International Financial Leasing Corporation Limited and its subsidiaries ( CES Lease Company ) | Controlled by the same parent company  |
| Shanghai Eastern Airlines Investment Co., Ltd. ( Eastern Investment )                              | Controlled by the same parent company  |
| Shanghai Eastern Airlines Logistics Co., Ltd. and its subsidiaries ( Eastern Logistics ) (Note)    | Controlled by the same parent company  |
| Eastern Airlines Industry Investment Company Limited ( Eastern Airlines Industry Investment )      | Controlled by the same parent company  |
| CES Finance Holding Co., Limited ( CES Finance )   | Controlled by the same parent company and a substantial shareholder of the Company |
| CES Global Holdings (Hong Kong) Limited ( CES Global )   | Controlled by the same parent company and a substantial shareholder of the Company |
| Hong Kong Securities Clearing Company Ltd. ( HKSCC )   | A substantial shareholder of the Company   |
| TravelSky Technology Limited ( TravelSky )   | A director and vice president of the Company is a director of Travelsky            |
| China Aviation Supplies Holding Company and its subsidiaries ( CASC )                              | A director and vice president of the Company is a director of CASC                 |
| Air France-KLM Group ( AFK )   | A director and vice president of the Company is a director of AFK                  |

Note:

Eastern Logistics has become a related party of the Group as it was acquired by Eastern Airlines Industry Investment in February 2017 and ceased to be a subsidiary of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

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## 49 RELATED PARTY TRANSACTIONS (continued)

## (b) Related party transactions

| <b>Nature of transaction</b>  | <b>Related party</b>    | <b>Pricing policy and decision process</b> | <b>2018<br/>RMB million</b> | <b>2017<br/>RMB million</b> |
|---|-------------------------|--|-----------------------------|-----------------------------|
| <b><i>Purchase of goods and services</i></b>  |                         |  |                             |                             |
| Payments on food and beverages*   | Eastern Air Catering    | (i)  | 1,317                       | 1,254                       |
|   | CEA Development         | (i)  | 78                          | 72                          |
|   | Eastern Import & Export | (i)  | 60                          | 58                          |
| Handling charges for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines* | Eastern Import & Export | (i)  | 165                         | 145                         |
| Repairs and maintenance expense for aircraft and engines  | Shanghai P&W            | (i)  | 2,394                       | 2,538                       |
|   | Technologies Aerospace  | (i)  | 344                         | 276                         |
|   | Wheels & Brakes         | (i)  | 129                         | 152                         |
|   | Shanghai Hute           | (i)  | 74                          | 60                          |
| Payments on cabin cleaning services   | Eastern Advertising     | (i)  | 20                          | 22                          |
| Advertising expense*  | Eastern Advertising     | (i)  | 19                          | 23                          |
| Payments on system services   | China Kaiya             | (i)  | 21                          | 44                          |
| Equipment maintenance fee*  | Collins Aviation        | (i)  | 60                          | 62                          |
|   | CEA Development         | (i)  | 71                          | 53                          |
| Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products*   | CEA Development         | (i)  | 13                          | 68                          |
|   | CEA Development         | (i)  | 102                         | 75                          |

|  |                         |     |     |     |
|--|-------------------------|-----|-----|-----|
| Property management and green maintenance expenses*                    |                         |     |     |     |
| Payments on hotel accommodation service*                               | CEA Development         | (i) | 127 | 104 |
| Payments on logistics services   | Eastern Import & Export | (i) | 142 | 87  |
| Civil aviation information network services**                          | TravelSky               | (i) | 646 | 551 |
| Flight equipment spare parts maintenance**                             | CASC                    | (i) | 189 | 98  |
| Flight training fee  | CAE Melbourne           | (i) | 75  | 138 |
| Payments on aviation transportation cooperation and support services** | AFK                     | (i) | 425 | 399 |
| Flight equipment spare parts maintenance and support services**        | AFK                     | (i) | 2   |     |
| Land and building rental*  | CEA Holding             | (i) | 33  | 54  |
| Bellyhold space management*  | Eastern Logistics       | (i) | 32  | 117 |
| Bellyhold space operation cost*  | Eastern Logistics       | (i) | 246 |     |
| Transfer of pilots   | Eastern Logistics       | (i) | 24  | 7   |
| Cargo terminal business support services*                              | Eastern Logistics       | (i) | 348 | 281 |
| Bellyhold container management   | Eastern Logistics       | (i) | 11  | 9   |



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## 49 RELATED PARTY TRANSACTIONS (continued)

## (b) Related party transactions (continued)

| <b>Nature of transaction</b>                               | <b>Related party</b>                 | <b>Pricing policy and decision process</b> | <b>2018<br/>RMB million</b> | <b>2017<br/>RMB million</b> |
|--|--------------------------------------|--|-----------------------------|-----------------------------|
| <b><i>Provision of services</i></b>                        |                                      |  |                             |                             |
| Contractual revenue from bellyhold space*                  | Eastern Logistics                    | (i)  | 2,795                       |                             |
| Freight logistics support services*                        | Eastern Logistics                    | (i)  | 126                         | 100                         |
| Software system and support services                       | Eastern Logistics                    | (i)  | 42                          |                             |
| Transfer of freight depots and equipment                   | Eastern Logistics                    | (i)  | 28                          |                             |
| Land and building rental*                                  | Eastern Logistics                    | (i)  | 22                          |                             |
| Media royalty fee  | Eastern Advertising                  | (i)  | 14                          | 15                          |
| Aviation transportation cooperation and support services** | AFK                                  | (i)  | 728                         | 622                         |
| <b><i>Lease Payments</i></b>                               |                                      |  |                             |                             |
| Payments on operating leases                               | CES Lease Company                    | (ii)                                       | 195                         | 25                          |
| Payments on finance leases                                 | CES Lease Company                    | (ii)                                       | 3,789                       | 1,997                       |
| <b><i>Interest expense</i></b>                             |                                      |  |                             |                             |
| Interest expense on loans                                  | CEA Holding                          | (iii)                                      | 13                          | 1                           |
|  | Eastern Air Finance                  | (iii)                                      |                             | 2                           |
| <b><i>Interest income</i></b>                              |                                      |  |                             |                             |
| Interest income on deposits                                | Eastern Air Finance Company          | (iii)                                      | 26                          | 29                          |
| <b><i>Others</i></b>                                       |                                      |  |                             |                             |
| Disposal of a subsidiary                                   | Eastern Airlines Industry Investment | (iv)                                       |                             | 2,433                       |

- (i) The Group's pricing policies on goods and services purchased from and provided to related parties are mutually agreed between contract parties.

- (ii) The Group's pricing policies on related party lease payments are mutually agreed between contract parties.
  - (iii) The Group's pricing policies on related party interest rates are mutually agreed based on benchmark interest rates.
  - (iv) The Group's pricing policies on transfer of equity or disposal of investments are mutually agreed based on the valuation prices.
- \* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").
- \*\* These related party transactions constitute continuing connected transactions pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

During the years ended December 31, 2018 and 2017, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government mainly include most of its bank deposits/borrowings and the corresponding interest income/expense and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

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## 49 RELATED PARTY TRANSACTIONS (continued)

## (c) Balances with related parties

## (i) Amounts due from related parties

|  | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|--|----------------------------|----------------------------|
| <b>Trade and notes receivables</b>       |                            |                            |
| Eastern Logistics                        |                            | 194                        |
| Eastern Air Catering                     | 1                          | 1                          |
|  | 1                          | 195                        |
|  |                            |                            |
|  | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
| <b>Prepayments and other receivables</b> |                            |                            |
| Eastern Import & Export                  | 133                        | 379                        |
| Technologies Aerospace                   | 31                         | 10                         |
| Eastern Air Catering                     | 16                         | 135                        |
| Eastern Advertising                      | 28                         | 29                         |
| CEA Development                          | 7                          | 2                          |
| CEA Holding                              | 25                         | 9                          |
| CASC                                     | 12                         |                            |
| CES Global                               | 3                          |                            |
| TravelSky                                |                            | 5                          |
| Others                                   | 23                         |                            |
|  | 278                        | 569                        |

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

## (ii) Amounts due to related parties

|                                 | <b>2018</b>        | <b>2017</b>        |
|---------------------------------|--------------------|--------------------|
|                                 | <i>RMB million</i> | <i>RMB million</i> |
| <b>Trade and bills payables</b> |                    |                    |
| Eastern Import & Export         | 229                | 51                 |
| Eastern Logistics               | 167                |                    |
| Eastern Air Catering            | 272                | 31                 |
| Technologies Aerospace          | 141                | 105                |
| CEA development                 | 15                 | 25                 |
| Collins Aviation                | 1                  | 1                  |
| CEA Holding                     | 13                 | 4                  |
| CASC                            | 18                 | 9                  |
| Shanghai Hute                   | 15                 | 14                 |
| TravelSky                       | 333                |                    |
| Wheels & Brakes                 | 14                 |                    |
| Others                          | 1                  | 1                  |
|                                 | 1,219              | 241                |

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## 49 RELATED PARTY TRANSACTIONS (continued)

## (c) Balances with related parties (continued)

## (ii) Amounts due to related parties (continued)

|                                    | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|------------------------------------|----------------------------|----------------------------|
| <b>Other payables and accruals</b> |                            |                            |
| Eastern Import & Export            | 129                        | 2                          |
| Shanghai P&W                       | 315                        | 578                        |
| Eastern Air Catering               | 1                          | 10                         |
| CEA Holding                        | 104                        | 302                        |
| Eastern Advertising                | 3                          | 2                          |
| China Kaiya                        | 2                          |                            |
| Shanghai Hute                      |                            | 11                         |
| Technologies Aerospace             |                            | 1                          |
| Wheels & Brakes                    |                            | 16                         |
| CEA Development                    | 49                         | 50                         |
| TravelSky                          |                            | 551                        |
| CAE Melbourne                      | 311                        | 316                        |
| Eastern Investment                 | 10                         | 269                        |
| CES Lease Company                  | 164                        |                            |
| CASC                               | 2                          |                            |
| Others                             | 3                          | 3                          |
|                                    | 1,093                      | 2,111                      |

|                             | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|-----------------------------|----------------------------|----------------------------|
| <b>Contract liabilities</b> |                            |                            |
| Eastern Logistics           | 6                          |                            |

|   | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|---|----------------------------|----------------------------|
| <b>Obligations under finance leases</b> |                            |                            |
| CES Lease Company                       | 30,190                     | 11,934                     |

Except for the amounts due to CES Lease Company, which are related to the aircraft under finance leases, all other amounts due to related parties are interest-free and payable within normal credit terms given by trade creditors.

(iii) Short-term deposits, loan and borrowings with related parties

|   | Average interest rate |       | 2018<br><i>RMB million</i> | 2017<br><i>RMB million</i> |
|---|-----------------------|-------|----------------------------|----------------------------|
|   | 2018                  | 2017  |                            |                            |
| Short-term deposits (included in cash and cash equivalents) |                       |       |                            |                            |
| Eastern Air Finance Company                                 | 0.35%                 | 0.35% | 282                        | 4,053                      |
| Long-term borrowings (included in borrowings)               |                       |       |                            |                            |
| CEA Holding   | 3.89%                 | 3.48% | 528                        | 28                         |
| Loan to joint venture                                       |                       |       |                            |                            |
| CAE Melbourne   | 3.74%                 |       | 20                         |                            |

(d) **Guarantees by the holding company**

As at December 31, 2018, bonds of the Group guaranteed by CEA Holding amounted to RMB7.8 billion (2017: RMB7.8 billion).

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## 49 RELATED PARTY TRANSACTIONS (continued)

**(e) Key management compensation**

The compensation paid or payable to key management for employee services mainly comprising salaries and other short-term employee benefits was analyzed as follows:

|                           | <b>2018</b><br><i>RMB million</i> | <b>2017</b><br><i>RMB million</i> |
|---------------------------|-----------------------------------|-----------------------------------|
| Directors and supervisors | 2                                 | 3                                 |
| Senior management         | 8                                 | 6                                 |
|                           | 10                                | 9                                 |

## 50 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

|  | Financial<br>assets at<br>fair value<br>through profit<br>or loss | Financial<br>assets at<br>fair value<br>through<br>comprehensive | Financial<br>assets<br>at<br>amortized<br>cost | Derivatives<br>designated<br>as<br>hedging<br>instruments | Total              |
|--|---|--|--|---|--------------------|
|  | <i>RMB<br/>million</i>  | <i>RMB<br/>million</i>   | <i>RMB million</i>                             | <i>RMB million</i>  | <i>RMB million</i> |
| <b>2018</b>  |   |  |  |   |                    |
| <b>Financial assets</b>  |   |  |  |   |                    |
| Equity investments designated at fair value through other comprehensive income |   | 1,247  |  |   | 1,247              |
| Derivative financial instruments   |   |  |  | 223   | 223                |
| Financial assets included in other non-current assets                          |   |  | 190  |   | 190                |
| Trade and notes receivables  |   |  | 1,436  |   | 1,436              |

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|  |    |       |       |     |       |
|--|----|-------|-------|-----|-------|
| Financial asset at fair value through profit or loss           | 96 |       |       |     | 96    |
| Financial assets included in prepayments and other receivables |    |       | 2,825 |     | 2,825 |
| Restricted bank deposits and short-term bank deposits          |    |       | 16    |     | 16    |
| Cash and cash equivalents                                      |    |       | 646   |     | 646   |
| Total  | 96 | 1,247 | 5,113 | 223 | 6,679 |

|   | Financial liabilities<br>at<br>amortized<br>cost<br><i>RMB million</i> | Derivatives<br>designated<br>as<br>hedging<br>instruments<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|---|--|---|-----------------------------|
| <b>Financial liabilities</b>                                  |  |   |                             |
| Trade and bills payables                                      | 12,166   |   | 12,166                      |
| Financial liabilities included in other payables and accruals | 7,581  |   | 7,581                       |
| Obligations under finance leases                              | 77,427   |   | 77,427                      |
| Borrowings  | 55,126   |   | 55,126                      |
| Derivative financial instruments                              |  | 29  | 29                          |
| Total   | 152,300  | 29  | 152,329                     |



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## 50 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

| 2017   | Loans and<br>receivables<br><i>RMB million</i> | Available-<br>for-sale<br>investments<br><i>RMB million</i> | Derivatives<br>designated<br>as<br>hedging<br>instruments<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|--|--|---|---|-----------------------------|
| <b>Financial assets</b>  |  |   |   |                             |
| Available-for-sale investments                                 |  | 800   |   | 800                         |
| Derivative financial instruments                               |  |   | 151   | 151                         |
| Trade and notes receivables                                    | 2,124  |   |   | 2,124                       |
| Financial assets included in prepayments and other receivables | 2,526  |   |   | 2,526                       |
| Restricted bank deposits and short-term bank deposits          | 51   |   |   | 51                          |
| Cash and cash equivalents                                      | 4,605  |   |   | 4,605                       |
| Financial assets included in other non-current assets          | 293  |   |   | 293                         |
| <b>Total</b>   | <b>9,599</b>                                   | <b>800</b>  | <b>151</b>  | <b>10,550</b>               |

|                                  | Loans and<br>borrowings<br><i>RMB million</i> | Derivatives<br>designated<br>as<br>hedging<br>instruments<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|----------------------------------|---|---|-----------------------------|
| <b>Financial liabilities</b>     |   |   |                             |
| Borrowings                       | 63,801  |   | 63,801                      |
| Obligations under finance leases | 66,868  |   | 66,868                      |

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|                                  |         |     |         |
|----------------------------------|---------|-----|---------|
| Derivative financial instruments |         | 325 | 325     |
| Trade and bills payables         | 3,184   |     | 3,184   |
| Other payables and accruals      | 12,964  |     | 12,964  |
| Total                            | 146,817 | 325 | 147,142 |

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## NOTES TO THE FINANCIAL STATEMENTS

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## 51 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

|  | December 31, 2018                      |                                   | December 31, 2017                      |                                   |
|--|--|-----------------------------------|--|-----------------------------------|
|  | <i>Carrying amounts</i><br>RMB million | <i>Fair values</i><br>RMB million | <i>Carrying amounts</i><br>RMB million | <i>Fair values</i><br>RMB million |
| <b>Financial assets</b>  |  |                                   |  |                                   |
| Equity investments designated at fair value through other comprehensive income                 | 1,247                                  | 1,247                             |  |                                   |
| Financial asset at fair value through profit and loss  | 96                                     | 96                                |  |                                   |
| Available-for-sale investments   |  |                                   | 693                                    | 693                               |
| Derivative financial assets  | 223                                    | 223                               | 151                                    | 151                               |
| Deposits relating to aircraft held under operating leases included in other non-current assets | 177                                    | 154                               | 217                                    | 193                               |
| <b>Total</b>   | <b>1,743</b>                           | <b>1,720</b>                      | <b>1,061</b>                           | <b>1,037</b>                      |
| <b>Financial liabilities</b>   |  |                                   |  |                                   |
| Derivative financial liabilities   | 29                                     | 29                                | 325                                    | 325                               |
| Long-term borrowings   | 25,867                                 | 25,875                            | 24,711                                 | 23,812                            |
| Obligations under finance leases   | 68,063                                 | 64,521                            | 57,627                                 | 57,352                            |
| <b>Total</b>   | <b>93,959</b>                          | <b>90,424</b>                     | <b>82,663</b>                          | <b>81,489</b>                     |

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

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

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

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the foreign exchange spot and forward rates and interest rate curves. As at December 31, 2018, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognized at fair value.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortization ( EV/EBITDA ) multiple and price to earnings ( P/E ) multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

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## 51 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at December 31, 2018 and 2017:

|                             | Valuation technique | Significant unobservable input     | Range                                  | Sensitivity of fair value to the input  |
|-----------------------------|---------------------|------------------------------------|--|---|
| Unlisted equity investments | Valuation multiples | Discount for lack of marketability | 2018: 19% to 41%<br>(2017: 29% to 41%) | 1% (2017: 1%)<br><br>increase/decrease in multiple would result in increase/decrease in fair value by RMB11 million (2017: RMB15 million) |

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

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

Assets and liabilities measured at fair value:

As at December 31, 2018

| Quoted prices in active markets (Level 1) | Fair value measurement using Significant |   |                    | Total              |
|---|--|---|--------------------|--------------------|
|   | observable inputs (Level 2)              | Significant unobservable inputs (Level 3) |                    |                    |
| <i>RMB million</i>                        | <i>RMB million</i>                       | <i>RMB million</i>                        | <i>RMB million</i> | <i>RMB million</i> |

| <b>Assets</b>  |     |     |     |       |
|--|-----|-----|-----|-------|
| Equity investments designated at fair value through other comprehensive income | 510 |     | 737 | 1,247 |
| <b>Derivative financial assets</b>   |     |     |     |       |
| -Interest rate swaps   |     | 223 |     | 223   |
| Financial asset at fair value through profit or loss                           | 96  |     |     | 96    |
| <b>Total</b>   | 606 | 223 | 737 | 1,566 |
| <b>Liabilities</b>   |     |     |     |       |
| <b>Derivative financial liabilities</b>  |     |     |     |       |
| -Foreign currency contracts  |     | 29  |     | 29    |
| <b>Total</b>   |     | 29  |     | 29    |

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## NOTES TO THE FINANCIAL STATEMENTS

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## 51 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchyAssets and liabilities measured at fair value: (continued)

As at December 31, 2017

|                                    | Quoted prices<br>in<br>active<br>markets<br>(Level<br>1)<br><i>RMB<br/>million</i> | Fair value measurement using   |  | Total<br><i>RMB million</i> |
|------------------------------------|--|--|--|-----------------------------|
|                                    |  | Significant<br>observable<br>inputs<br>(Level 2)<br><i>RMB million</i> | Significant<br>unobservable<br>inputs<br>(Level 3)<br><i>RMB million</i> |                             |
| <b>Assets</b>                      |  |  |  |                             |
| Derivative financial assets        |  |  |  |                             |
| - Interest rate swaps              |  | 151  |  | 151                         |
| Available-for-sale investments     | 693  |  |  | 693                         |
| <b>Total</b>                       | 693  | 151  |  | 844                         |
| <b>Liabilities</b>                 |  |  |  |                             |
| Derivative financial liabilities   |  |  |  |                             |
| -Interest rate swaps               |  | 14   |  | 14                          |
| -Foreign exchange forward contract |  | 311  |  | 311                         |
| <b>Total</b>                       |  | 325  |  | 325                         |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

Assets and liabilities for which fair values are disclosed:

As at December 31, 2018

Fair value measurement using

## Quoted prices

|  | in<br>active<br>markets<br>(Level<br>1) | Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total              |
|--|---|--|--|--------------------|
|  | <i>RMB<br/>million</i>                  | <i>RMB million</i>                               | <i>RMB million</i>                                 | <i>RMB million</i> |
| <b>Assets</b>  |   |  |  |                    |
| Deposits relating to aircraft held under operating leases included in other non-current assets |   | 154  |  | 154                |
| <b>Liabilities</b>   |   |  |  |                    |
| Long-term borrowings   | 2,861                                   | 23,014   |  | 25,875             |
| Obligations under finance leases   |   | 64,521   |  | 64,521             |
|  | 2,861                                   | 87,535   |  | 90,396             |

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## NOTES TO THE FINANCIAL STATEMENTS

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## 51 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)Assets and liabilities for which fair values are disclosed: (continued)

As at December 31, 2017

|  | Quoted prices<br>in<br>active<br>markets<br>(Level<br>1) | Fair value measurement using<br>Significant<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total              |
|--|--|--|--|--------------------|
|  | <i>RMB<br/>million</i>                                   | <i>RMB million</i>   | <i>RMB million</i>                                 | <i>RMB million</i> |
| <b>Assets</b>  |  |  |  |                    |
| Deposits relating to aircraft held under operating leases included in other non-current assets |  | 193  |  | 193                |
| <b>Liabilities</b>   |  |  |  |                    |
| Long-term bank borrowings  | 2,678  | 21,134   |  | 23,812             |
| Obligations under finance leases   |  | 57,352   |  | 57,352             |
|  | 2,678  | 78,486   |  | 81,164             |

## 52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk management is carried out by a central treasury department (the Group Treasury ) under policies approved by the Board. The Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group s operating units. The overall risk management strategies, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments were approved by the Board.

***Foreign currency risk***

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and the amount of its foreign currency liabilities at the end of the period is much higher than that of its foreign currency assets. The Group s major liability item (mainly resulting from purchases of aircraft) is mainly priced and settled in foreign currencies, primarily USD. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

The RMB is not freely convertible into other currencies, however, under Mainland China s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

In addition, fluctuations in foreign currency exchange rates will affect the Group s future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain forward currency contracts to manage part of these foreign currency risks. As at December 31, 2018, the forward currency contracts at notional value were RMB4,495 million. Details of the forward currency contracts are disclosed in note 25 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## 52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*Foreign currency risk (continued)*

The following tables detail the Group's exposure to major currency risk at the reporting dates:

|                                  | <b>2018</b>               |                           |                           |                           |
|----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                  | USD<br><i>RMB million</i> | EUR<br><i>RMB million</i> | SGD<br><i>RMB million</i> | KRW<br><i>RMB million</i> |
| Trade receivables                | 75                        | 55                        | 5                         | 25                        |
| Cash and cash equivalents        | 124                       | 47                        | 10                        |                           |
| Other receivables                |                           | 2                         | 1                         | 131                       |
| Other non-current assets         | 190                       |                           |                           |                           |
| Trade and other payables         | (144)                     | (2)                       | (5)                       |                           |
| Obligations under finance leases | (25,376)                  |                           | (514)                     |                           |
| Borrowings                       | (3,139)                   | (3,566)                   | (2,503)                   | (1,066)                   |

|                                  | <b>2017</b>               |                           |                           |                           |
|----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                  | USD<br><i>RMB million</i> | EUR<br><i>RMB million</i> | SGD<br><i>RMB million</i> | KRW<br><i>RMB million</i> |
| Trade receivables                | 31                        | 3                         | 16                        | 16                        |
| Cash and cash equivalents        | 961                       | 74                        | 28                        |                           |
| Other receivables                | 1,065                     |                           | 1                         | 131                       |
| Other non-current assets         | 206                       |                           |                           |                           |
| Trade and other payables         | (111)                     |                           | (6)                       |                           |
| Obligations under finance leases | (29,254)                  |                           | (627)                     |                           |
| Borrowings                       | (7,555)                   | (4,921)                   | (2,435)                   | (1,058)                   |

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

|  | <b>2018</b>               |  | <b>2017</b>                         |
|--|---------------------------|--|-------------------------------------|
|  | Effect on<br>profit<br>or |  | Effect<br>on other<br>comprehensive |

|   | loss               | income                 | profit<br>or<br>loss | <i>RMB<br/>million</i> |
|---|--------------------|------------------------|----------------------|------------------------|
|   | <i>RMB million</i> | <i>RMB<br/>million</i> |                      |                        |
|   |                    |                        | <i>RMB million</i>   |                        |
| If RMB (weakens)/strengthens<br>against USD | (178)/178          | 34/(34)                | (260)/260            | 41/(41)                |
| If RMB (weakens)/strengthens<br>against EUR | (26)/26            |                        | (36)/36              |                        |
| If RMB (weakens)/strengthens<br>against SGD | (23)/23            |                        | (23)/23              |                        |
| If RMB (weakens)/strengthens<br>against KRW | (7)/7              |                        | (7)/7                |                        |
| <b><i>Interest rate risk</i></b>            |                    |                        |                      |                        |

The Group's interest rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and finance leases issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the proportion of borrowings and finance leases issued at variable rates and fixed rates based on the market environment.

The Group's finance department has been monitoring the level of interest rates. The increase in the interest rates will increase the interest costs of borrowings and finance leases issued at variable rates, which will further impact the performance of the Group. To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in notes 25 and 39 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## 52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Interest rate risk (continued)*

The following tables detail the interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates:

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <i>RMB million</i> | <i>RMB million</i> |
| <b>Floating rate instruments</b>                      |                    |                    |
| Cash and cash equivalents                             | 646                | 4,605              |
| Restricted bank deposits and short-term bank deposits | 16                 | 51                 |
| Borrowings  | (9,705)            | (13,272)           |
| Obligations under finance leases                      | (50,761)           | (45,314)           |
| Interest rate swaps at notional amount                | 7,566              | 9,280              |

|                                  | <b>2018</b>        | <b>2017</b>        |
|----------------------------------|--------------------|--------------------|
|                                  | <i>RMB million</i> | <i>RMB million</i> |
| <b>Fixed rate instruments</b>    |                    |                    |
| Borrowings                       | (45,477)           | (50,529)           |
| Obligations under finance leases | (26,666)           | (21,554)           |

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

|  | <b>2018</b>                                       |   | <b>2017</b>  |   |
|--|---|---|--|---|
|  | Effect on<br>profit or loss<br><i>RMB million</i> | Effect on<br>other<br>comprehensive<br>income | Effect on profit<br>or<br>loss<br><i>RMB<br/>million</i> | Effect on<br>other<br>comprehensive<br>income |
|  |   |   |  |   |

|                           |       | <i>RMB<br/>million</i> |       | <i>RMB<br/>million</i> |
|---------------------------|-------|------------------------|-------|------------------------|
| Floating rate instruments | (112) | 14                     | (142) | 17                     |

***Fuel price risk***

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a major expense component for the Group. Aircraft fuel accounted for approximately 33% of the Group's operating expenses (2017:25%).

For the year ended December 31, 2018, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB1,684 million higher/lower (2017: RMB1,257million higher/lower).

As at December 31, 2018 and 2017, the Group had no crude oil option contracts.

***Credit risk***

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets is sold by sales agents participating in the Billing and Settlements Plan (BSP), a clearing system between airlines and sales agents organized by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB637 million as at December 31, 2018 (2017: approximately RMB717 million). The credit risk exposure to BSP agents and the remaining trade and notes receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other reputable banks and financial institutions. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (note 49(c)(iii)). Management does not expect any loss to arise from non-performance by these banks and the financial institution.

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

## NOTES TO THE FINANCIAL STATEMENTS

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## 52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Liquidity risk*

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

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

|                                  | Less than<br>1 year<br><i>RMB million</i> | 1 and 2 years<br><i>RMB million</i> | 2 and 5 years<br><i>RMB million</i> | Over<br>5 years<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|----------------------------------|---|-------------------------------------|-------------------------------------|---------------------------------------|-----------------------------|
| <b>At December 31, 2018</b>      |   |                                     |                                     |                                       |                             |
| Borrowings                       | 30,813                                    | 8,074                               | 15,500                              | 4,431                                 | 58,818                      |
| Derivative financial instruments | 29  |                                     |                                     |                                       | 29                          |
| Obligations under finance leases | 11,974                                    | 12,014                              | 30,018                              | 36,974                                | 90,980                      |
| Trade, bills and other payables  | 19,747                                    |                                     |                                     |                                       | 19,747                      |
| <b>Total</b>                     | <b>62,563</b>                             | <b>20,088</b>                       | <b>45,518</b>                       | <b>41,405</b>                         | <b>169,574</b>              |

|                                  | Less than<br>1 year<br><i>RMB million</i> | 1 and 2 years<br><i>RMB million</i> | 2 and 5 years<br><i>RMB million</i> | Over<br>5 years<br><i>RMB million</i> | Total<br><i>RMB million</i> |
|----------------------------------|---|-------------------------------------|-------------------------------------|---------------------------------------|-----------------------------|
| <b>At December 31, 2017</b>      |   |                                     |                                     |                                       |                             |
| Borrowings                       | 41,060                                    | 7,325                               | 10,161                              | 10,014                                | 68,560                      |
| Derivative financial instruments | 324                                       |                                     | 1                                   |                                       | 325                         |
| Obligations under finance leases | 11,651                                    | 10,408                              | 27,895                              | 30,196                                | 80,150                      |
| Trade, bills and other payables  | 16,148                                    |                                     |                                     |                                       | 16,148                      |
| <b>Total</b>                     | <b>69,183</b>                             | <b>17,733</b>                       | <b>38,057</b>                       | <b>40,210</b>                         | <b>165,183</b>              |

*Equity price risk*

The Group is exposed to equity price risk arising from individual equity investments included in financial asset at fair value through profit or loss (note 30) and equity investments designated at fair value through other comprehensive income/ available-for-sale investments (note 24) as at December 31, 2018. The Group's listed investments are listed on the Hong Kong and Shanghai stock exchanges and are valued at quoted market prices at the end of the reporting period.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

|           |                 | December 31<br>2018 | High/Low<br>2018 | December 31<br>2017 | High/Low<br>2017 |
|-----------|-----------------|---------------------|------------------|---------------------|------------------|
| Hong Kong | Hang Seng Index | 25,846              | 33,154/24,586    | 29,919              | 30,003/22,134    |
| Shanghai  | A Share Index   | 2,611               | 3,728/2,600      | 3,463               | 3,611/3,197      |



## NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

December 31, 2018

## 52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Equity price risk (continued)*

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at fair value through other comprehensive income, the impact is deemed to be on the fair value reserve as at December 31, 2018.

|   | Carrying amount<br>of equity investment<br><i>RMB</i><br><i>million</i> | Increase/(decrease)<br>in profit<br>or loss<br><i>RMB</i><br><i>million</i> | Increase/(decrease)<br>in comprehensive<br>income<br><i>RMB</i><br><i>million</i> |
|---|---|---|---|
| <b>2018</b>   |   |   |   |
| Investments listed in:  |   |   |   |
| Hong Kong Equity investment<br>designated at fair value through<br>other comprehensive income | 510   |   | 38/(38)   |
| Shanghai Financial asset at fair<br>value through profit or loss                              | 96  | 7/(7)   |   |
| Unlisted investments at fair value:   |   |   |   |
| Equity investment designated at<br>fair value through other<br>comprehensive income           | 737   |   | 55/(55)   |
| <b>2017</b>   |   |   |   |
| Investments listed in:  |   |   |   |
| Hong Kong Available-for-sale  | 569   |   | 43/(43)   |
| Shanghai Available-for-sale   | 123   |   | 9/(9)   |

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any

externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and December 31, 2017.

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratios at December 31, 2018 and 2017 were as follows:

|                   | <b>2018</b>        | <b>2017</b>        |
|-------------------|--------------------|--------------------|
|                   | <i>RMB million</i> | <i>RMB million</i> |
| Total liabilities | 177,416            | 170,949            |
| Total assets      | 239,017            | 229,727            |
| Debt ratio        | 0.74               | 0.74               |

### 53 EVENTS AFTER THE REPORTING PERIOD

On March 19, 2019, the Company and Greenland Holdings Corporation Limited ( Greenland Holdings ) entered into a capital injection and share expansion agreement. According to the agreement, Greenland Holdings agreed to inject capital into Shanghai Airlines Tours International (Group) Co., Ltd. ( Shanghai Airlines Tours ), a wholly-owned subsidiary of the Company, and subscribe its newly issued shares with monetary capital in an aggregate amount of RMB251 million. The amount of capital injection was determined based on the result of public tendering at China Beijing Equity Exchange. Upon the completion of the capital injection and share expansion, the Company's equity interest in Shanghai Airlines Tours will be diluted to 35%, and Greenland Holdings will hold 65% of the equity interest in Shanghai Airlines Tours.