Independent Auditor's Report

To the shareholders of China Eastern Airlines Corporation Limited
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 122 to 239, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of contract liabilities for frequent flyer program	
As disclosed in Note 2.4, Note 3 and Note 35 to the consolidated financial statements, the Group operates a frequent flyer program that issues mileage points to program members for future redemption. The Group defers a portion of passenger revenue attributable to the mileage points issued based on the relative stand-alone selling price approach and recognises revenue when the mileage points are redeemed and performance obligations are fulfilled or the mileage points expire unused. The stand-alone selling price of the mileage points was estimated based on the historical prices of equivalent flights and goods provided for mileage points redeemed, adjusted for mileage points that are not expected to be redeemed ("breakage"). At 31 December 2019, the Group's contract liabilities for frequent flyer program amounted to RMB2,057 million. Auditing the Group's estimation was complex due to the significant assumptions used in determining the estimated stand-alone selling price of mileage points, which include the historical prices of equivalent flights and goods provided for mileage points redeemed and the estimated breakage. Changes in the significant assumptions could have a significant effect on the balance of contract liabilities for frequent flyer program and the results of operations.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Group's accounting for frequent flyer program, including controls over management's review of the aforesaid significant assumptions and the completeness and accuracy of the underlying data used. Our audit procedures included, among others, evaluating the Group's methodology for estimating the stand-alone selling price of mileage points including the breakage. We tested the calculation of historical prices of equivalent flights and goods provided for mileage points redeemed, including the completeness and accuracy of the underlying data used in the calculation. We also compared the estimated mileage points breakage with the Group's historical redemption pattern and further considered current industry and economic trends and other relevant factors that might trigger changes to the estimation. Additionally, we tested the completeness and accuracy of the underlying mileage points data used in the Group's methodology and performed sensitivity analyses to evaluate the changes to the Group's contract liabilities that would result from changes in the mileage points breakage.
Provision for lease return costs for aircraft and engines	
At 31 December 2019, the Group's provision for lease return costs for aircraft and engines under lease arrangements totalled RMB7,178 million. As described in Note 2.4, Note 3 and Note 39 to the consolidated financial statements, certain lease arrangements contain provisions for the Group's obligations to fulfil certain return conditions at the end of lease terms. The Group estimates lease return costs for aircraft and engines taking into account the anticipated aircraft and engines' utilisation patterns, the historical experience of actual return costs incurred and anticipated return costs. These costs are recognised as part of the right-of-use assets on the Group's consolidated statement of financial position. Auditing the Group's provision for lease return costs for aircraft and engines involved complex auditor judgement due to the estimation uncertainty of the anticipated aircraft and engines' utilisation patterns and anticipated return costs used by management to quantify the provision.	We obtained an understanding, evaluated the design and tested the operating effectiveness of the Group's controls over the measurement of the provision for lease return costs including testing controls over management's review of the estimation of anticipated aircraft and engines' utilisation patterns and anticipated return costs. To test the Group's lease return provision, our audit procedures included, among others, evaluating the estimation used by the Group to determine the provision by testing a sample of lease arrangements with return condition clauses. We compared management's plans for future utilisation of aircraft and engines against the respective historical utilisation patterns. Additionally, we evaluated the reasonableness of the Group's anticipated return costs estimation process by comparing management's prior years' anticipated return costs estimates with actual return costs incurred by the Group.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
At 31 December 2019, the Group's goodwill was RMB11,270 million, which relates to its airline transportation operations. As disclosed in Note 2.4, Note 3 and Note 20 to the consolidated financial statements, the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount which is the higher of its value in use and its fair value less costs of disposal. Management uses the value in use of the cash-generating unit to which the goodwill is allocated to determine the recoverable amount. Estimating the value in use requires the Group to estimate the projected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those projected cash flows. Auditing the Group's goodwill impairment test was complex due to the significant estimation required in determining the value in use of the cash-generating unit. In particular, the estimated value in use was sensitive to significant assumptions such as revenue growth rate, terminal growth rate and the discount rate applied to the projected cash flows. These assumptions may be affected by unexpected changes in future market or economic conditions.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Group's goodwill impairment testing process, including controls over management's review of the aforesaid significant assumptions described above and the data used in the valuation. To test the value in use estimates of the cash-generating unit, our audit procedures included, among others, evaluating the valuation methodology and testing the significant assumptions discussed above and the underlying data used by the Group in its assessment. We involved our valuation specialists to assist in evaluating management's valuation methodology and assessing the terminal growth rate and discount rate applied. We compared the significant assumptions used by management to current industry and economic trends and other relevant factors. We also assessed the reasonableness of management's projected cash flows estimation process by comparing the Group's historical estimates to actual results . Additionally, we performed sensitivity analyses of significant assumptions to evaluate the changes in the value in use of the cash-generating unit that would result from changes in the assumptions.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEUNG, Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)

Year ended 31 December 2019

	Notes	2019 RMB million	2018 RMB million
Revenue	5	120,986	115,278
Other operating income and gains	6	7,202	6,592
Operating expenses			
Aircraft fuel		(34,191)	(33,680)
Take-off and landing charges		(16,457)	(14,914)
Depreciation and amortisation		(22,080)	(15,313)
Wages, salaries and benefits	8	(24,152)	(22,134)
Aircraft maintenance		(3,380)	(3,738)
Food and beverages		(3,667)	(3,383)
Low value and short-term lease rentals		(631)	—
Aircraft operating lease rentals		—	(4,306)
Other operating lease rentals		—	(928)
Selling and marketing expenses		(4,134)	(3,807)
Civil aviation development fund		(1,831)	(2,235)
Ground services and other expenses		(2,476)	(2,845)
Impairment charges	9	(4)	(318)
Impairment losses on financial assets, net	10	(16)	(27)
Fair value changes of financial asset at fair value through profit or loss		25	(27)
Fair value changes of derivative financial instruments	11	—	311
Indirect operating expenses		(5,113)	(5,217)
Total operating expenses		(118,107)	(112,561)
Operating profit	7	10,081	9,309
Share of results of associates	21	265	170
Share of results of joint ventures	22	17	34
Finance income	12	96	110
Finance costs	13	(6,160)	(5,767)
Profit before income tax		4,299	3,856
Income tax expense	14	(819)	(926)
Profit for the year		3,480	2,930
Other comprehensive income for the year			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges, net of tax	24	(110)	43
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(110)	43
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Fair value changes of equity investments designated at fair value through other comprehensive income, net of tax		16	(247)
Share of other comprehensive income of an associate, net of tax	21	7	(24)
Actuarial gains/(losses) on the post-retirement benefit obligations, net of tax	40	40	(115)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		63	(386)
Other comprehensive income for the year, net of tax		(47)	(343)
Total comprehensive income for the year		3,433	2,587

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)

Year ended 31 December 2019

	Note	2019 RMB million	2018 RMB million
Profit attributable to:			
Equity holders of the Company		3,192	2,698
Non-controlling interests		288	232
Profit for the year		3,480	2,930
Total comprehensive income attributable to:			
Equity holders of the Company		3,141	2,358
Non-controlling interests		292	229
Total comprehensive income for the year		3,433	2,587
Earnings per share attributable to the equity holders of the Company during the year			
— Basic and diluted (RMB)	16	0.21	0.19

Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)

31 December 2019

	Notes	2019 RMB million	2018 RMB million
Non-current assets			
Property, plant and equipment	17	99,437	180,104
Investment properties	18	653	724
Right-of-use assets	19(b)	128,704	—
Prepayments for land use rights	19(a)	—	1,387
Intangible assets	20	11,698	11,609
Advanced payments on acquisition of aircraft		16,222	21,942
Investments in associates	21	1,977	1,696
Investments in joint ventures	22	627	577
Equity investments designated at fair value through other comprehensive income	23	1,274	1,247
Derivative financial instruments	24	27	222
Other non-current assets	25	3,970	3,370
Deferred tax assets	26	853	207
		265,442	223,085
Current assets			
Flight equipment spare parts	27	2,407	1,950
Trade and notes receivables	28	1,717	1,436
Financial assets at fair value through profit or loss	29	121	96
Prepayments and other receivables	30	14,093	11,776
Derivative financial instruments	24	43	1
Restricted bank deposits and short-term bank deposits	31	6	16
Cash and cash equivalents	32	1,350	646
Assets classified as held for sale	33	6	11
		19,743	15,932
Current liabilities			
Trade and bills payables	34	3,877	4,040
Contract liabilities	35	10,178	8,811
Other payables and accruals	36	22,602	21,143
Current portion of lease liabilities	19(c)	15,590	—
Current portion of obligations under finance leases	37	—	9,364
Current portion of borrowings	38	25,233	29,259
Income tax payable		351	273
Current portion of provision for lease return costs for aircraft and engines	39	519	145
Derivative financial instruments	24	13	29
		78,363	73,064
Net current liabilities		(58,620)	(57,132)
Total assets less current liabilities		206,822	165,953

(Prepared in accordance with International Financial Reporting Standards)

31 December 2019

	Notes	2019 RMB million	2018 RMB million
Non-current liabilities			
Lease liabilities	19(c)	**94,685**	—
Obligations under finance leases	37	**—**	68,063
Borrowings	38	**26,604**	25,867
Provision for lease return costs for aircraft and engines	39	**6,659**	2,761
Contract liabilities	35	**1,499**	1,585
Derivative financial instruments	24	**10**	—
Post-retirement benefit obligations	40	**2,419**	2,544
Other long-term liabilities	41	**2,278**	3,448
Deferred tax liabilities	26	**22**	84
		134,176	104,352
Net assets		**72,646**	61,601
Equity			
Equity attributable to the equity holders of the Company			
— Share capital	42	**16,379**	14,467
— Reserves	43	**52,629**	43,541
		69,008	58,008
Non-controlling interests		**3,638**	3,593
Total equity		**72,646**	61,601

The financial statements were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Liu Shaoyong
Chairman

Li Yangmin
President

Consolidated Statement of Changes in Equity

(Prepared in accordance with International Financial Reporting Standards)

Year ended 31 December 2019

	Attributable to owners of the parent					
	Share capital RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2018	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)
Total comprehensive income for the year	–	(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)	–	–	–
At 31 December 2018	14,467	27,045*	16,496*	58,008	3,593	61,601
At 1 January 2019	14,467	27,045*	16,496*	58,008	3,593	61,601
Effect of adoption of IFRS 16	–	–	(1,595)	(1,595)	(163)	(1,758)
At 1 January 2019 (restated)	14,467	27,045	14,901	56,413	3,430	59,843
Profit for the year	–	–	3,192	3,192	288	3,480
Other comprehensive income	–	(51)	–	(51)	4	(47)
Total comprehensive income for the year	–	(51)	3,192	3,141	292	3,433
Issue of shares	1,912	7,530	–	9,442	–	9,442
Dividend paid to non-controlling interests	–	–	–	–	(84)	(84)
Transfer from retained profits	–	212	(212)	–	–	–
Others	–	11	1	12	–	12
At 31 December 2019	16,379	34,747*	17,882*	69,008	3,638	72,646

* These reserve accounts comprise the consolidated reserves of RMB52,629 million (2018: RMB43,541 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared in accordance with International Financial Reporting Standards)

Year ended 31 December 2019

	Notes	2019 RMB million	2018 RMB million
Cash flows from operating activities			
Cash generated from operations	46(a)	30,137	24,047
Income tax paid		(1,165)	(1,709)
Net cash flows from operating activities		28,972	22,338
Cash flows from investing activities			
Additions to property, plant and equipment and other non-current assets		(7,589)	(26,194)
Investments in joint ventures		(110)	(16)
(Net) proceeds from disposal of a subsidiary	45	(90)	(11)
Proceeds from disposal of property, plant and equipment		157	5,493
Proceeds from novation of purchase rights		2,366	7,483
Proceeds from disposal of intangible assets		2	1
Proceeds from disposal of an equity investment		5	—
Proceeds from disposal of prepayments for land use rights		—	158
Interest received		—	71
Dividends received		241	252
Settlement relating to derivative financial instruments		104	1
Loan to a joint venture		—	(20)
Proceeds from repayment of loans to a joint venture		15	2
Net cash flows used in investing activities		(4,899)	(12,780)
Cash flows from financing activities			
Proceeds from issue of shares		9,442	—
Proceeds from draw-down of short-term bank loans		6,986	19,144
Proceeds from draw-down of long-term bank loans		300	8,000
Proceeds from issuance of short-term debentures		39,000	31,000
Proceeds from issuance of long-term debentures and bonds		7,755	2,938
Proceeds from draw-down of other financing activities		—	10,693
Repayments of short-term bank loans		(12,868)	(36,066)
Repayments of long-term bank loans		(4,033)	(7,592)
Repayments of short-term debentures		(35,000)	(26,500)
Repayments of long-term debentures and bonds		(5,567)	—
Repayments of principal of lease liabilities		(23,895)	—
Repayments of principal of finance lease obligations		—	(9,629)
Interest paid		(5,494)	(4,359)
Settlement relating to derivative financial instruments		82	(392)
Dividends paid		—	(738)
Dividends paid to non-controlling interests of subsidiaries		(83)	(57)
Net cash flows used in financing activities		(23,375)	(13,558)
Net increase/(decrease) in cash and cash equivalents		698	(4,000)
Cash and cash equivalents at beginning of year		646	4,616
Effect of foreign exchange rate changes, net		6	30
Cash and cash equivalents at 31 December		1,350	646

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

31 December 2019

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 14 April 1995. The address of the Company's registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the "Group") are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

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 authorised for issue by the Company's Board of Directors (the "Board") on 31 March 2020.

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	Percentage of equity attributable to the Company		Principal activities
		million	Direct	Indirect	
China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu")	PRC/Mainland China 7 April 1993	RMB2,000	62.56%	—	Provision of airline services
China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan")	PRC/Mainland China 16 August 2002	RMB1,750	60%	—	Provision of airline services
Shanghai Eastern Flight Training Co., Ltd. ("Shanghai Flight Training")	PRC/Mainland China 18 December 1995	RMB694	100%	—	Provision of flight training services
Shanghai Airlines Co., Ltd. ("Shanghai Airlines")	PRC/Mainland China 16 March 2010	RMB500	100%	—	Provision of airline services
China Eastern Airlines Technology Co., Ltd. ("Eastern Technology")	PRC/Mainland China 19 November 2014	RMB4,300	100%	—	Provision of airline maintenance services
One two three Airlines Co., Ltd. ("OTT Airlines") (Originally named Eastern Business Airlines Co., Ltd.)	PRC/Mainland China 27 September 2008	RMB1,500	100%	—	Provision of business aviation services

1 Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
China Eastern Airlines Yunnan Co., Ltd. ("CEA Yunnan")	PRC/Mainland China 2 August 2011	RMB3,662	90.36%	—	Provision of airline services
Eastern Air Overseas (Hong Kong) Co., Ltd. ("Eastern Air Overseas")	Hong Kong 10 June 2011	HKD280	100%	—	Provision of import and export, investment, leasing and consultation services
China United Airlines Co., Ltd. ("China United Airlines")	PRC/Mainland China 21 September 1984	RMB1,320	100%	—	Provision of airline services
Eastern Airlines Hotel Co., Ltd.	PRC/Mainland China 18 March 1998	RMB70	100%	—	Provision of hotel services primarily to crew
China Eastern Airlines Application Development Center Co., Ltd. ("Application Development Center")	PRC/Mainland China 21 November 2011	RMB498	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")	PRC/Mainland China 1 December 2014	RMB50	100%	—	E-commerce platform and ticket agent

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.

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 31 December 2019. 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 derecognises (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 recognises (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 recognised 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.

2.1 Basis of Preparation (continued)

Going concern

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB58.62 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:

- Unutilised banking facilities of approximately RMB50.06 billion as at 31 December 2019;
- Other available sources of financing from banks and other financial institutions given the Group's credit history; and
- The Group's expected net cash inflows from operating activities in 2020.

The Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 and IFRIC 23, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) IFRS 16 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*. The standard 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019.Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of aircraft, engines, buildings and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

For aircraft and engine leases, the right-of-use assets amounting to RMB32,001 million were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. For the other leases, the right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB94,416 million that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impact on transition *(continued)*

- Relying on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review;

- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities measured under IAS 17.

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB million
Assets	
Increase in right-of-use assets	128,312
Decrease in property, plant and equipment	(94,416)
Decrease in prepayments for land use rights	(1,387)
Decrease in prepayments and other receivables	(403)
Increase in deferred tax assets	470
Increase in total assets	32,576
Liabilities	
Increase in lease liabilities	109,306
Increase in provision for lease return costs for aircraft and engines	3,654
Decrease in obligations under finance leases	(77,427)
Decrease in other long-term liabilities	(1,115)
Decrease in deferred tax liabilities	(84)
Increase in total liabilities	34,334
Decrease in retained profits	(1,595)
Decrease in non-controlling interests	(163)

2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

Financial impact at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB million
Operating lease commitments as at 31 December 2018	37,278
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(206)
Commitments relating to leases of low-value assets	(1)
	37,071
Weighted average incremental borrowing rate as at 1 January 2019	4.09%
Discounted operating lease commitments as at 1 January 2019	31,879
Add: Obligations under finance leases recognised as at 31 December 2018	77,427
Lease liabilities as at 1 January 2019	109,306

(b) IFRIC 23 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 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 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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 recognised 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.

2.3 Issued but not yet Effective International Financial Reporting Standards (continued)

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 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 Summary of Significant Accounting Policies

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.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's 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.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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*.

2.4 Summary of Significant Accounting Policies (continued)

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 recognised 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

Revenue from contracts with customers

Revenue from contracts with customers is recognised 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 recognised 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 with 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 with a significant financial benefit for more than one year, revenue recognised 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 recognised 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 recognises 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 recognised 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 recognised upon ticket sales.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(d) The Group operates a frequent flyer program called "Eastern Miles" that issues mileage points to program members based on accumulated mileage. The Group defers a portion of passenger revenue attributable to the mileage points issued based on the relative stand-alone selling price approach and recognises revenue when the mileage points are redeemed and performance obligations are fulfilled or the mileage points expire unused. The stand-alone selling price of the mileage points was estimated based on the historical prices of equivalent flights and goods provided for mileage points redeemed and was adjusted for mileage points that are not expected to be redeemed ("mileage points breakage").

(e) Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised 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 recognised 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

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognised 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

Overhaul costs that meet specific recognition criteria are capitalised as a component of property, plant and equipment or right-of-use assets and are depreciated over the appropriate maintenance cycles.

Certain lease arrangements contain provisions that the Group has obligations to fulfil certain return conditions at the end of lease term. The Group estimated lease return costs for aircraft and engines and recognised such costs as part of the right-of-use asset and are depreciated during the lease term. (applicable from 1 January 2019)

Provision for the estimated lease return costs for aircraft and engines is made on a straight-line basis over the lease term. (applicable before 1 January 2019)

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

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 capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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 recognised 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 recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, 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 recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 realise 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.

Business combinations and goodwill

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 recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised 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 recognised 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 recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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 31 December. 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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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 recognised. An impairment loss recognised 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.

Intangible assets (other than goodwill)

(i) Computer software costs

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

(ii) Others

Others relate to the capitalised 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 amortised 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 amortised 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

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment

Property, plant and equipment, 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 recognised in the carrying amount of the item of property, plant and equipment and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 5 to 7.5 years. Components related to engine overhaul costs, are depreciated between each overhaul period using the ratio of actual flying hours and estimated flying hours between overhauls. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to profit 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 aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	8 to 45 years
Other property, plant and equipment	3 to 20 years

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised 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 capitalised 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 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 recognised in profit or loss in the year of the retirement or disposal.

Impairment of non-financial assets (other than goodwill)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, 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 recognised 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (other than goodwill) (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised 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 amortised.

Prepayments for land use rights (applicable before 1 January 2019)

Prepayments for land use rights under operating leases are initially stated at cost and subsequently recognised 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 realisable value. Cost is determined using the weighted average method. The cost of flight equipment spare parts comprises the purchase price (net of discounts), freight charges, duty and other miscellaneous charges. Net realisable 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

Initial recognition and measurement

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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".

In order for a financial asset to be classified and measured at amortised 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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 amortised cost (debt instruments)

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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 recognised 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 are carried in the statement of financial position at fair value with net changes in fair value recognised 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 through profit or loss are also recognised 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 recognised 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.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (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.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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 recognised 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 amortised 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

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (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 recognises 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.

Financial liabilities

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 recognised 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, lease liabilities, interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the statement of profit or loss.

Offsetting of financial instruments

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised 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.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by IFRS 9 and IAS 39 is recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

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 recognised 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 recognised asset or liability or an unrecognised 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 recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

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

The documentation includes identification of the hedging instrument, the hedged item, 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.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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 recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised 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 recognised 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.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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.

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

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

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

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognised and measured as a provision.

2.4 Summary of Significant Accounting Policies (continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Aircraft and engines under leases	8 to 12 years
Buildings	2 to 10 years
Prepayments for land use rights	50 years
Others	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 Summary of Significant Accounting Policies (continued)

Leases (applicable from 1 January 2019) (continued)

(i) As lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of assets that considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(ii) As lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

(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 capitalised at the lease's commencement at the lower of the fair value of the assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in 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 recognise the transferred asset and recognise 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.

2.4 Summary of Significant Accounting Policies (continued)

Leases (applicable before 1 January 2019) (continued)

(i) **As lessee** (continued)

Operating leases *(continued)*

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised 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 amortised 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 recognised 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 organised by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

The Group also implements 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 recognised 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 recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit 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

2.4 Summary of Significant Accounting Policies (continued)

Dividend distribution

Dividend distribution to the Company's shareholders is recognised 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 consolidated financial statements.

Fair value measurement

The Group measures its derivative financial instruments and 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 Significant Accounting Judgements and Estimates

Estimates and judgements 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 recognises traffic revenues in accordance with the accounting policy stated in Note 2.4 to the consolidated financial statements. Passenger ticket breakage is recognised as revenue based on estimates. The Group estimates the value of passenger ticket breakage, reduces contract liabilities and recognises 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) Recognition of contract liabilities for frequent flyer program

Passenger ticket sales earning mileage points under the Company's frequent flyer program provide customers with mileage points earned and air transportation. A portion of passenger revenue attributable to the mileage points issued is deferred based on the relative stand-alone selling price approach. Significant assumptions are used in determining the estimated stand-alone selling price of mileage points, including the historical prices of equivalent flights and goods provided, which is estimated by reference to the quantitative value a program member receives by redeeming mileage points for flights and goods, and the estimated mileage points breakage. Mileage points breakage is estimated considering historical redemption pattern, current industry and economic trends and other relevant factors. Changes in the significant assumptions could have a significant effect on the balance of contract liabilities for frequent flyer program and the results of operations.

(c) Provision for lease return costs for aircraft and engines

Provision for lease return costs for aircraft and engines is recognised as part of the right-of-use assets and are depreciated during the lease term. The estimation of the provision is made taking into account anticipated aircraft and engines' utilisation patterns, historical experience of actual return costs incurred and anticipated return costs, which are by reference to historical experience on returning similar airframe models and engines and aircraft return condition. Different judgements or estimates could significantly affect the estimated provision for lease return costs for aircraft and engines.

(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 recognised over the employee's service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2.4 to the consolidated 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 40 to the consolidated financial statements.

(e) Deferred income tax

Deferred tax assets are recognised for unused tax losses and deductible temporary difference to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary difference can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3 Significant Accounting Judgements and Estimates (continued)

(f) Provision for flight equipment spare parts

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

(g) Depreciation of property, plant and equipment

Depreciation of components related to airframe and engine overhaul costs 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 judgements 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 consolidated 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-kilometres yield level, load factor, aircraft utilisation 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 recoverable amount which is the higher of its value in use and its fair value less costs of disposal. Management uses the value in use of the cash-generating unit to which the goodwill is allocated to determine the recoverable amount. Estimating the value in use requires the Group to make an estimate of the projected 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 50 to the consolidated 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.

(k) Leases — Estimating the incremental borrowing rate (applicable from 1 January 2019)

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating) when necessary.

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 and ground service.

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 IFRSs 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.

The segment results for the year ended 31 December 2019 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
Segment revenue					
Reportable segment revenue from external customers	119,240	1,620	—	—	120,860
Intersegment sales	—	2,052	(2,052)	—	—
Reportable segment revenue	119,240	3,672	(2,052)	—	120,860
Reportable segment profit before income tax	2,745	1,164	—	393	4,302
Other segment information					
Depreciation and amortisation	21,816	261	—	—	22,077
Impairment charges/Impairment losses on financial assets, net	20	—	—	—	20
Interest income	108	1	(13)	—	96
Interest expense	5,152	30	(13)	—	5,169
Capital expenditure	42,853	303	—	—	43,156

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 31 December 2018 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
Segment revenue					
Reportable segment revenue from external customers	112,228	2,702	—	—	114,930
Intersegment sales	—	1,425	(1,425)	—	—
Reportable segment revenue	112,228	4,127	(1,425)	—	114,930
Reportable segment profit before income tax	2,723	622	—	522	3,867
Other segment information					
Depreciation and amortisation	15,051	251	—	—	15,302
Impairment charges/Impairment losses on financial assets, net	338	7	—	—	345
Interest income	118	1	(9)	—	110
Interest expense	3,721	15	(9)	—	3,727
Capital expenditure	30,670	508	—	—	31,178

The segment assets and liabilities as at 31 December 2019 and 31 December 2018 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
At 31 December 2019					
Reportable segment assets	**274,578**	**6,225**	**(1,943)**	**4,076**	**282,936**
Reportable segment liabilities	**211,035**	**3,146**	**(1,943)**	**301**	**212,539**
At 31 December 2018					
Reportable segment assets	230,533	4,635	(2,248)	3,845	236,765
Reportable segment liabilities	176,836	2,712	(2,248)	113	177,413

* Unallocated assets primarily represent investments in associates and joint ventures, derivative financial instruments, equity investments designated at fair value through other comprehensive income and a 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 a financial asset at fair value through profit or loss and dividend income relating to equity investments.

4 Operating Segment Information (continued)

(b) The Group's business operates in three main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues by geographical area are analysed based on the following criteria:

1) Traffic revenue from services within 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 and other miscellaneous services are classified on the basis of where the services are performed.

	2019 RMB million	2018 RMB million
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	80,058	76,517
International	37,082	34,744
Regional (Hong Kong, Macau and Taiwan)	3,846	4,017
	120,986	115,278

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 revenues, profit, assets and liabilities to the consolidated figures as reported in the consolidated financial statements:

	Note	2019 RMB million	2018 RMB million
Revenue			
Reportable segment revenue		120,860	114,930
— Reclassification of taxes relating to the expired tickets	(i)	126	348
Consolidated revenue		120,986	115,278

4 Operating Segment Information (continued)

(c) Reconciliation of reportable segment revenues, profit, assets and liabilities to the consolidated figures as reported in the consolidated financial statements: (continued)

	Note	2019 RMB million	2018 RMB million
Profit before income tax			
Reportable segment profit		4,302	3,867
— Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	(3)	(11)
Consolidated profit before income tax		4,299	3,856

	Notes	2019 RMB million	2018 RMB million
Assets			
Reportable segment assets		282,936	236,765
— Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	7	10
— Difference in intangible asset arising from the acquisition of Shanghai Airlines	(iii)	2,242	2,242
Consolidated assets		285,185	239,017

	2019 RMB million	2018 RMB million
Liabilities		
Reportable segment liabilities	212,539	177,413
— Others	—	3
Consolidated liabilities	212,539	177,416

Notes:

(i) The difference represents the different classification of sales related taxes 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 Revenue

An analysis of revenue is as follows:

	2019 RMB million	2018 RMB million
Revenue from contracts with customers	120,796	115,210
Revenue from other sources		
Rental income	190	68
	120,986	115,278

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Airline transportation operations RMB million	Other operations RMB million	Total RMB million
Type of goods or services			
Traffic revenues			
— Passenger	110,416	—	110,416
— Cargo and mail	3,826	—	3,826
Tour operations income	—	878	878
Ground service income	1,180	—	1,180
Commission income	2,485	—	2,485
Others	1,269	742	2,011
Total revenue from contracts with customers	119,176	1,620	120,796
Geographical markets			
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	78,248	1,620	79,868
International	37,082	—	37,082
Regional (Hong Kong, Macau and Taiwan)	3,846	—	3,846
Total revenue from contracts with customers	119,176	1,620	120,796

5 Revenue (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Airline transportation operations RMB million	Other operations RMB million	Total RMB million
Type of goods or services			
Traffic revenues			
— Passenger	104,309	—	104,309
— Cargo and mail	3,627	—	3,627
Tour operations income	—	2,173	2,173
Ground service income	1,005	—	1,005
Commission income	2,199	—	2,199
Others	1,368	529	1,897
Total revenue from contracts with customers	112,508	2,702	115,210
Geographical markets			
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 to the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	Airline transportation operations RMB million	Other operations RMB million	Total RMB million
Revenue from contracts with customers			
External customers	119,176	1,620	120,796
Intersegment sales	—	2,052	2,052
Intersegment adjustment and eliminations	—	(2,052)	(2,052)
Total revenue from contracts with customers	119,176	1,620	120,796

5 Revenue (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Airline transportation operations RMB million	Other operations RMB million	Total RMB million
Revenue from contracts with customers			
External customers	112,508	2,702	115,210
Intersegment sales	—	1,425	1,425
Intersegment adjustment and eliminations	—	(1,425)	(1,425)
Total revenue from contracts with customers	112,508	2,702	115,210

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB million	2018 RMB million
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Passenger transportation services	7,216	6,218

As at 31 December 2019, the contract liabilities for frequent flyer program amounted to RMB2,057 million. The table below presents the movements of the contract liabilities for frequent flyer program.

	2019 RMB million	2018 RMB million
At 1 January	2,286	1,994
Deferred during the year	1,613	1,519
Recognised as revenue during the year	(1,654)	(1,227)
At 31 December	2,245	2,286
Less: the related pending output value added tax therein	188	240
	2,057	2,046

5 Revenue (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Passenger transportation services

The performance obligation is satisfied upon transportation services are provided. Payment in advance is required and reflected in sales in advance of carriage or frequent flyer program, 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

	2019 RMB million	2018 RMB million
Co-operation routes income (note (a))	**5,436**	4,536
Routes subsidy income (note (b))	**353**	441
Other subsidy income (note (c))	**535**	453
Gain on disposal of items of property, plant and equipment	**40**	290
Gain on disposal of prepayments for land use rights	**—**	210
Gain on disposal of an associate	**—**	5
Dividend income from a financial asset at fair value through profit or loss	**3**	6
Dividend income from equity investments designated at fair value through other comprehensive income	**19**	23
Compensation from ticket sales agents	**331**	348
Gain on disposal of a subsidiary (Note 45)	**64**	—
Others	**421**	280
	7,202	6,592

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 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 recognised for the years ended 31 December 2019 and 2018.

7 Operating Profit

Operating profit is stated after charging the following items:

	2019 RMB million	2018 RMB million
Amortisation of intangible assets (Note 20)	**143**	160
Depreciation of property, plant and equipment (Note 17)		
— owned	**9,078**	7,926
— leased (finance leases)	**—**	6,690
Depreciation of right-of-use assets (Note 19(b)) (2018: amortisation of prepayments for land use rights)	**12,298**	43
Depreciation of investment properties (Note 18)	**25**	26
Amortisation of long-term deferred assets included in other non-current assets	**536**	468
Consumption of flight equipment spare parts	**1,013**	1,088
Auditors' remuneration	**18**	17
Foreign exchange differences, net (Note 13)	**990**	2,040

8 Wages, Salaries and Benefits

	2019 RMB million	2018 RMB million
Wages, salaries, bonuses and allowances	**19,385**	17,865
Employee welfare and benefits	**143**	170
Pension (Note 40(a))	**2,571**	2,306
Medical insurance (note (a))	**789**	706
Staff housing fund (note (b))	**1,056**	948
Staff housing allowances (note (c))	**186**	109
Early retirement benefits (note (d))	**22**	30
	24,152	22,134

Notes:

(a) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organised 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 recognised as a provision in "other long-term liabilities".

8 Wages, Salaries and Benefits (continued)

Notes: (continued)

(e) Directors' and executives' remuneration

Directors' and chief executive's 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, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	805	800
Other emoluments:		
Salaries, allowances and benefits in kind	665	1,464
Performance related bonuses*	–	–
Pension scheme contributions	21	41
	1,491	2,305

* No executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive Directors					
Liu Shaoyong*	–	–	–	–	–
Ma Xulun*&****	–	–	–	–	–
Wang Junjin**	–	–	–	–	–
Li Yangmin*&**	–	–	–	–	–
Tang Bing*&**	–	–	–	–	–
Yuan Jun*	–	–	–	–	–
Independent non-executive Directors					
Lin Wanli	–	–	–	–	–
Li Ruoshan***	200	–	–	–	200
Ma Weihua***	200	–	–	–	200
Shao Ruiqing	200	–	–	–	200
Cai Hongping	200	–	–	–	200
Dong Xuebo**	5	–	–	–	5
Supervisors					
Xi Sheng*	–	–	–	–	–
Gao Feng	–	665	–	21	686
Li Jinde*&***	–	–	–	–	–
Fang Zhaoya*&**	–	–	–	–	–
Total	805	665	–	21	1,491

8 Wages, Salaries and Benefits (continued)

Notes: (continued)

(e) Directors' and executives' remuneration (continued)

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive Directors					
Liu Shaoyong*	—	—	—	—	—
Ma Xulun*&****	—	—	—	—	—
Xu Zhao*&***	—	—	—	—	—
Gu Jiadan*&***	—	—	—	—	—
Li Yangmin*&***	—	—	—	—	—
Tang Bing*&***	—	—	—	—	—
Tian Liuwen*&***	—	—	—	—	—
Yuan Jun**	—	867	—	14	881
Independent non-executive Directors					
Lin Wanli**	—	—	—	—	—
Li Ruoshan	200	—	—	—	200
Ma Weihua	200	—	—	—	200
Shao Ruiqing	200	—	—	—	200
Cai Hongping	200	—	—	—	200
Supervisors					
Xi Sheng*	—	—	—	—	—
Gao Feng**	—	251	—	19	270
Li Jinde*&**	—	—	—	—	—
Ba Shengji*&***	—	—	—	—	—
Hu Jidong*&***	—	—	—	—	—
Feng Jinxiong*****	—	346	—	8	354
Jia Shaojun*&***	—	—	—	—	—
Total	800	1,464	—	41	2,305

* 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 31 December 2019 and 2018, respectively.

*** These directors and supervisors of the Company resigned during the years ended 31 December 2019 and 2018, respectively.

**** Mr. Ma Xulun resigned on 1 February 2019.

***** Mr. Feng Jinxiong passed away due to illness during the year ended 31 December 2018.

During the years ended 31 December 2019 and 2018, no directors and supervisors waived their emoluments.

8 Wages, Salaries and Benefits (continued)

Notes: (continued)

(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 31 December 2019 (2018: Nil). The emoluments payable to the five highest paid individuals were as follows:

	2019 RMB'000	2018 RMB'000
Wages, salaries and allowances	11,413	8,938
Pension scheme contributions	185	172
	11,598	9,110

The number of five highest paid individuals whose emoluments fell within the following bands is as follows:

	Number of individuals	
	2019	2018
HK$2,000,001 to HK$2,500,000	2	5
HK$2,500,001 to HK$3,000,000	2	—
HK$3,000,001 to HK$3,500,000	1	—

During the year ended 31 December 2019, 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 (2018: Nil).

9 Impairment Charges

	2019 RMB million	2018 RMB million
Impairment charge on property, plant and equipment (Note 17)	4	15
Write-down of flight equipment spare parts to net realisable value (Note 27)	—	301
Impairment charge on assets classified as held for sale	—	2
	4	318

10 Impairment Losses on Financial Assets, Net

	2019 RMB million	2018 RMB million
Reversal of impairment losses on trade receivables (Note 28)	(6)	(21)
Impairment losses on other receivables (Note 30)	22	48
	16	27

11 Fair Value Changes of Derivative Financial Instruments

	2019 RMB million	2018 RMB million
Forward currency contracts	—	311

12 Finance Income

	2019 RMB million	2018 RMB million
Interest income	96	110

13 Finance Costs

	2019 RMB million	2018 RMB million
Interest on bank borrowings	**1,149**	1,569
Interest relating to lease liabilities (Note 19(c))	**3,894**	—
Interest relating to obligations under finance leases	**—**	2,440
Interest relating to post-retirement benefit obligations	**92**	106
Interest relating to provision for lease return costs for aircraft and engines	**270**	—
Interest on bonds and debentures	**520**	468
Interest relating to interest rate swap contracts	**(68)**	(6)
Less: amounts capitalised into advanced payments on acquisition of aircraft (note (a))	**(687)**	(850)
	5,170	3,727
Foreign exchange losses, net (note (b))	**990**	2,040
	6,160	5,767

Notes:

(a) The weighted average interest rate used for interest capitalisation was 3.51% per annum for the year ended 31 December 2019 (For the year ended 31 December 2018: 3.54%).

(b) The exchange gains and losses primarily related to the translation of the Group's foreign currency denominated borrowings and lease liabilities. (2018: obligations under finance leases).

14 Income Tax Expense

Income tax charged to profit or loss was as follows:

	2019 RMB million	2018 RMB million
Income tax	**942**	1,220
Deferred taxation	**(123)**	(294)
	819	926

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 1 January 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% (2018: 16.5%). Eastern E-Commerce, a subsidiary of the Company, qualified for High and New Technology Enterprise (HNTE) status with HNTE certificate No.GR201831003674 issued by the relative authorities, has been entitled to a reduced corporate income tax rate of 15% from 1 January 2018 as approved by the tax authorities.

14 Income Tax Expense (continued)

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% (2018: 25%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 RMB million	2018 RMB million
Profit before income tax	**4,299**	3,856
Tax calculated at the tax rate of 25% (2018: 25%)	**1,075**	964
Lower tax rates enacted by local authority	**(139)**	(93)
Share of results of associates and joint ventures	**(71)**	(51)
Income not subject to tax	**(36)**	(9)
Expenses not deductible for tax	**128**	88
Utilisation of previously unrecognised tax losses	**(11)**	(60)
Unrecognised tax losses for the year	**17**	28
Utilisation of previously unrecognised deductible temporary differences	**(8)**	(1)
Unrecognised deductible temporary differences	**3**	23
Adjustments in respect of current tax of previous periods	**(34)**	61
Super deduction of research and development costs	**(27)**	(24)
Income tax deduction of purchase of special equipment for production safety	**(78)**	—
Tax charge	**819**	926
Effective tax rate	**19.05%**	24.01%

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended 31 December 2019 and 2018, as there are tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to the aviation business.

15 Dividends

	2019 RMB million	2018 RMB million
Proposed final — RMB0.050 (2018: Nil) per ordinary share	**819**	—

On 31 March 2020, the Board approved the 2019 profit distribution plan to propose cash dividend for 2019 of RMB0.050 per share (before tax), totaling RMB0.819 billion (before tax) based on 16,379,509,203 shares of the Company. The aforesaid profit distribution proposal is subject to approval by the shareholders at the forthcoming 2019 annual general meeting of the Company.

16 Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to equity holders of the Company of RMB3,192 million (2018: RMB2,698 million) and the weighted average number of shares of 15,104,893,522 (2018: 14,467,585,682) in issue during the year ended 31 December 2019. The Company had no potentially dilutive options or other financial instruments relating to the ordinary shares in issue during the years ended 31 December 2019 and 2018.

17 Property, Plant and Equipment

	Aircraft, engines and flight equipment					
	Owned RMB million	Held under finance leases RMB million	Buildings RMB million	Other property, plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2019						
At 31 December 2018, net of accumulated depreciation and impairment	68,565	94,416	8,530	4,174	4,419	180,104
Effect of adoption of IFRS 16	–	(94,416)	–	–	–	(94,416)
At 1 January 2019 (restated)	68,565	–	8,530	4,174	4,419	85,688
Additions	4,137	–	(41)	716	3,242	8,054
Disposals	(10)	–	(40)	(41)	–	(91)
Transfer from construction in progress	–	–	3,523	214	(3,737)	–
Transfer from advanced payments on acquisition of aircraft	335	–	–	–	–	335
Transfer from investment properties (Note 18)	–	–	76	–	–	76
Transfer from right-of-use assets (Note 19(b))	14,264	–	–	–	–	14,264
Transfer to investment properties (Note 18)	–	–	(23)	–	–	(23)
Transfer from/(to) other non-current assets	–	–	–	309	(67)	242
Disposal of a subsidiary (Note 45)	–	–	(8)	(18)	–	(26)
Depreciation provided during the year	(7,812)	–	(363)	(903)	–	(9,078)
Impairment	–	–	–	(4)	–	(4)
At 31 December 2019, net of accumulated depreciation and impairment	79,479	–	11,654	4,447	3,857	99,437
At 31 December 2019:						
Cost	133,845	–	14,153	10,217	3,857	162,072
Accumulated depreciation and impairment	(54,366)	–	(2,499)	(5,770)	–	(62,635)
Net carrying amount	79,479	–	11,654	4,447	3,857	99,437

17 Property, Plant and Equipment (continued)

As at 31 December 2019, the ownership certificates of buildings with a net carrying amount of RMB9,206 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 38):

	2019		2018	
	Cost RMB million	**Net carrying amount RMB million**	Cost RMB million	Net carrying amount RMB million
Aircraft				
— pledged as collateral	**10,819**	**7,243**	11,752	8,391

17 Property, Plant and Equipment (continued)

	Aircraft, engines and flight equipment					
	Owned RMB million	Held under finance leases RMB million	Buildings RMB million	Other property, plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2018						
At 31 December 2017 and at 1 January 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 1 January 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	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	(6,798)	(6,709)	(318)	(791)	–	(14,616)
Impairment	(15)	–	–	–	–	(15)
Transfers	2,820	(2,820)	(1)	1	–	–
At 31 December 2018, net of accumulated depreciation and impairment	68,565	94,416	8,530	4,174	4,419	180,104
At 31 December 2018:						
Cost	111,968	117,824	10,689	9,462	4,419	254,362
Accumulated depreciation and impairment	(43,403)	(23,408)	(2,159)	(5,288)	–	(74,258)
Net carrying amount	68,565	94,416	8,530	4,174	4,419	180,104

18 Investment Properties

	2019 RMB million	2018 RMB million
Cost		
At 1 January	940	392
Transfer from property, plant and equipment (Note 17)	35	474
Transfer from right-of-use assets (Note 19(b))	13	—
Transfer from intangible assets	—	98
Transfer to property, plant and equipment (Note 17)	(101)	(24)
Transfer to right-of-use assets (Note 19(b))	(4)	—
At 31 December	883	940
Accumulated depreciation		
At 1 January	216	90
Transfer from property, plant and equipment (Note 17)	12	88
Transfer from right-of-use assets (Note 19(b))	3	—
Transfer from intangible assets	—	18
Transfer to property, plant and equipment (Note 17)	(25)	(6)
Transfer to right-of-use assets (Note 19(b))	(1)	—
Charge for the year (Note 7)	25	26
At 31 December	230	216
Net book amount		
At 31 December	653	724

As at 31 December 2019, the fair value of the investment properties was approximately RMB1,125 million (2018: RMB1,127 million) according to a valuation performed by an independent professionally qualified valuer.

The investment properties are leased to third parties and related parties under operating leases. Rental income totalling RMB100 million (2018: RMB63 million) was received by the Group during the year in respect of the leases.

As at 31 December 2019, the carrying amount of the investment properties for which the ownership certificates of buildings have not been obtained was RMB451 million (2018: RMB498 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.

18 Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

Buildings	Fair value measurement using Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	Total RMB million
Not measured at fair value but fair value is disclosed:				
As at 31 December 2019	**–**	**144**	**981**	**1,125**
As at 31 December 2018	–	243	884	1,127

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 (2018: Nil).

The fair values of the buildings with comparable market prices have been estimated using significant observable inputs and calculated by adjusted market prices considering the condition and location of the buildings.

The fair values of the buildings without comparable market prices have been estimated by a discounted cash flow valuation model using significant unobservable inputs such as the estimated rental value, rent growth, long term vacancy rate and discount rate.

19 Leases

The Group as a lessee

The Group has lease contracts for various items of aircraft, engines, buildings and others used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. As at 31 December 2019, the Group had 462 aircraft (2018: 450 aircraft) under leases, which generally have lease terms between 8 and 12 years. Leases of engines generally have lease terms between 8 and 12 years, while buildings generally have lease terms between 2 and 10 years. Others, including motor vehicles, generally have lease term between 2 to 5 years. The Group also has lease contracts for buildings and equipment with lease terms of 12 months or less or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

19 Leases (continued)

The Group as a lessee (continued)

(a) Prepayments for land use rights (before 1 January 2019)

	RMB million
Carrying amount at 1 January 2018	1,717
Recognised in profit or loss during the year	(330)
Carrying amount at 31 December 2018	1,387

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Aircraft, and engines RMB million	Prepayments for land use rights RMB million	Buildings RMB million	Others RMB million	Total RMB million
Cost at 1 January 2019, net of accumulated depreciation	126,417	1,387	496	12	128,312
Additions	26,315	1	622	73	27,011
Transfer from investment properties (Note 18)	–	3	–	–	3
Transfer to property, plant and equipment (Note 17)	(14,264)	–	–	–	(14,264)
Transfer to investment properties (Note 18)	–	(10)	–	–	(10)
Disposal of a subsidiary (Note 45)	–	–	(10)	–	(10)
Disposals	(40)	–	–	–	(40)
Depreciation provided during the year	(11,964)	(38)	(284)	(12)	(12,298)
At 31 December 2019	126,464	1,343	824	73	128,704
At 31 December 2019:					
Cost	172,690	1,662	1,108	85	175,545
Accumulated depreciation	(46,226)	(319)	(284)	(12)	(46,841)
Net carrying amount	126,464	1,343	824	73	128,704

19 Leases (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB million	2018 Obligations under finance lease RMB million
Carrying amount at 1 January	77,427	66,868
Effect of adoption IFRS 16	31,879	—
Carrying amount at 1 January (restated)	109,306	66,868
New leases	24,023	18,769
Effect of foreign exchange	851	1,419
Disposal of a subsidiary (Note 45)	(10)	—
Accretion of interest recognised during the year	3,894	2,440
Payments	(27,789)	(12,069)
Carrying amount at 31 December	110,275	77,427
Analysed into:		
Current portion	15,590	9,364
Non-current portion	94,685	68,063

The maturity analysis of lease liabilities (2018: obligations under finance leases) is disclosed in Note 51 to the consolidated financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB million
Interest on lease liabilities	3,894
Depreciation charge of right-of-use assets	12,298
Low value and short-term lease rental	631
Total amount recognised in profit or loss	16,823

(e) The Group has no significant lease contracts that include extension and termination options or contains variable payments.

(f) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in Notes 46(d) and 47, respectively, to the consolidated financial statements.

19 Leases (continued)

The Group as a lessor

The Group leases its investment properties (Note 18 to the consolidated financial statements) consisting of around 68 industrial properties in the PRC under operating lease arrangements, with leases negotiated for terms ranging from two to fourteen years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB190 million (2018:RMB68 million), details of which are included in Note 5 to the consolidated financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB million
Within one year	165
After one year but within two years	149
After two years but within three years	144
After three years but within four years	139
After four years but within five years	138
After five years	221
	956

20 Intangible Assets

	Goodwill (note (a)) RMB million	Computer software RMB million	Others (note (b)) RMB million	Total RMB million
31 December 2019				
Cost at 1 January 2019,				
net of accumulated amortisation	11,270	339	—	11,609
Additions	—	199	—	199
Transfer from construction in process	—	36	—	36
Disposals	—	(3)	—	(3)
Amortisation provided during the year	—	(143)	—	(143)
At 31 December 2019	11,270	428	—	11,698
At 31 December 2019:				
Cost	11,270	1,301	98	12,669
Accumulated amortisation	—	(873)	(98)	(971)
Net carrying amount	11,270	428	—	11,698
31 December 2018				
Cost at 1 January 2018,				
net of accumulated amortisation	11,270	293	33	11,596
Additions	—	166	—	166
Transfer from construction in process	—	7	—	7
Amortisation provided during the year	—	(127)	(33)	(160)
At 31 December 2018	11,270	339	—	11,609
At 31 December 2018:				
Cost	11,270	1,077	98	12,445
Accumulated amortisation	—	(738)	(98)	(836)
Net carrying amount	11,270	339	—	11,609

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 9.5% (2018: 10%). The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3% (2018: 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 Investments in Associates

	2019 **RMB million**	2018 RMB million
Share of net assets	**1,977**	1,696

The movements in investments in associates were as follows:

	2019 **RMB million**	2018 RMB million
At 1 January	**1,696**	1,654
Additions	**95**	—
Share of results of associates	**265**	170
Share of revaluation on equity investments designated at fair value through other comprehensive income held by an associate	**7**	(24)
Share of other equity changes of an associate	**8**	—
Dividend received during the year	**(85)**	(104)
Disposal of a subsidiary (Note 45)	**(9)**	—
At 31 December	**1,977**	1,696

21 Investments in Associates (continued)

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
		2019 Million	2018 Million	2019	2018	
Eastern Air Group Finance Co., Ltd. ("Eastern Air Finance Company")	PRC/Mainland China 6 December 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 17 November 2003	RMB350	RMB350	45%	45%	Provision of air catering services
Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. ("Shanghai P&W") (note)	PRC/Mainland China 28 March 2008	USD40	USD40	51%	51%	Provision of aircraft, engine and other related components maintenance services
New Shanghai International Tower Co., Ltd.	PRC/Mainland China 17 November 1992	RMB167	RMB167	20%	20%	Property development provision and management services
Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export")	PRC/Mainland China 9 June 1993	RMB80	RMB80	45%	45%	Provision of aviation equipment and spare parts purchase
Eastern Aviation Advertising Service Co., Ltd. ("Eastern Advertising")	PRC/Mainland China 4 March 1986	RMB200	RMB200	45%	45%	Provision of aviation advertising agency services
Shanghai Collins Aviation Maintenance Service Co., Ltd. ("Collins Aviation")	PRC/Mainland China 27 September 2002	USD7	USD7	35%	35%	Provision of airline electronic product maintenance services
Shanghai Airlines Tours International (Group) Co., Ltd. ("Shanghai Airlines Tours")	PRC/Mainland China 29 August 1992	RMB143	RMB50	35%	100%	Tour operations, travel and air ticketing agency and transportation

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's agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

21 Investments in Associates (continued)

The following table illustrates the aggregate financial information of the Group's associates that were not individually material:

	2019 RMB million	2018 RMB million
Share of the associates' profit for the year	265	170
Share of the associates' other comprehensive income	7	(24)
Share of the associates' total comprehensive income	272	146
Aggregate carrying amount of the Group's interests in the associates	1,977	1,696

22 Investments in Joint Ventures

	2019 RMB million	2018 RMB million
Share of net assets	627	577

The movements in investments in joint ventures were as follows:

	2019 RMB million	2018 RMB million
At 1 January	577	557
Additions	102	16
Share of results	17	34
Dividend received during the year	(69)	(30)
At 31 December	627	577

22 Investments in Joint Ventures (continued)

Particulars of the principal joint ventures, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2019 Million	2018 Million	**2019**	2018	
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace") (note)	PRC/Mainland China 28 September 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 28 December 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 21 May 1999	**RMB10**	RMB10	**41%**	41%	Provision of computer systems development and maintenance services
CAE Melbourne Flight Training Pty Ltd. ("CAE Melbourne")	Australia 9 March 2007	**AUD11**	AUD11	**50%**	50%	Provision of flight training services
Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute")	PRC/Mainland China 9 April 2003	**RMB30**	RMB30	**50%**	50%	Provision of equipment maintenance services
Xi'an CEA SAFRAN Landing Systems Services Co., Ltd. ("XIESA")	PRC/Mainland China 12 July 2017	**USD40**	USD40	**50%**	50%	Provision of aircraft, engine and other related components maintenance services

Note:

Under a joint venture agreement with a joint venture partner of Technologies Aerospace dated 10 March 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.

22 Investments in Joint Ventures (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that were not individually material:

	2019 RMB million	2018 RMB million
Share of the joint ventures' profit for the year	**17**	34
Share of the joint ventures' total comprehensive income	**17**	34
Aggregate carrying amount of the Group's interests in the joint ventures	**627**	577

23 Equity Investments Designated at Fair Value Through Other Comprehensive Income

	2019 RMB million	2018 RMB million
Listed equity investments, at fair value		
TravelSky Technology Limited	**496**	510
	496	510
Unlisted equity investments, at fair value		
Sichuan Airlines Corporation Limited	**336**	438
Aviation Data Communication Corporation Limited	**244**	161
Others	**198**	138
	778	737
	1,274	1,247

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 31 December 2019, the Group received dividends in the amounts of RMB8 million, RMB2 million, RMB5 million and RMB4 million from TravelSky Technology Limited, Sichuan Airlines Corporation Limited, Aviation Data Communication Corporation Limited and other non-listed equity investments designated at fair value through other comprehensive income, respectively.

24 Derivative Financial Instruments

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RMB million	RMB million	**RMB million**	RMB million
At 31 December				
Forward currency contracts	**43**	—	**13**	29
Interest rate swaps	**27**	223	**10**	—
Total	**70**	223	**23**	29
Less: current portion				
— Forward currency contracts	**43**	—	**13**	29
— Interest rate swaps	**—**	1	**—**	—
Non-current portion	**27**	222	**10**	—

Cash flow hedge — Foreign currency risk

Forward currency contracts are designated as hedging instruments in cash flow hedges of forecasted capital expenditures in USD, which comprise about 7% of its total expected capital expenditures in USD, and forecasted transactions that are highly probable. The forward currency contract balances vary with the level of expected foreign currency expenditures and changes in foreign exchange forward rates.

Cash flow hedge — Interest rate risk

At 31 December 2019, the Group had interest rate swap contracts in place with a notional amount of USD888 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 lease liabilities with a face value of USD888 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 lease liabilities (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

24 Derivative Financial Instruments (continued)

Cash flow hedge — Interest rate risk (continued)

The Group holds the following forward currency contracts and interest rate swap contracts:

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 1 year	Total
As at 31 December 2019						
Forward currency contracts						
(Capital expenditures)						
Notional amount (in RMB million)	–	628	1,047	1,046	–	2,721
Average forward rate (RMB/USD)	–	7.0151	6.9325	6.9988	–	6.9771
Forward currency contracts						
(Highly probable forecasted purchases)						
Notional amount (in RMB million)	–	–	1,835	858	–	2,693
Average forward rate (RMB/USD)	–	–	6.9629	6.8810	–	6.9368
Interest rate swaps						
(Payment on lease liabilities)						
Notional amount (in RMB million)	31	30	–	–	6,133	6,194
Hedged rate (%)	2.0450	1.8800	–	–	1.6803	1.6831

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount RMB million	Carrying amount RMB million	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB million
As at 31 December 2019				
Forward currency contracts (Capital expenditures)	2,721	8	Derivative financial instruments	141
Forward currency contracts (Highly probable forecasted purchases)	2,693	22	Derivative financial instruments	22
Forward currency contracts (Payment on bonds)	–	–	Derivative financial instruments	14
Interest rate swaps (Payment on lease liabilities)	6,194	17	Derivative financial instruments	(137)

24 Derivative Financial Instruments (continued)

Cash flow hedge — Interest rate risk (continued)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the year RMB million	Cash flow hedge reserve RMB million
As at 31 December 2019		
Capital expenditures	141	8
Highly probable forecasted purchases	22	22
Payment on bonds	14	–
Payment on lease liabilities	(163)	17
	14	47

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 gain/(loss) recognised in other comprehensive income					Amount reclassified from other comprehensive income to profit or loss			
	Gross amount RMB million	Tax effect RMB million	Total RMB million	Hedge ineffectiveness recognised in profit or loss RMB million	Line item in the statement of profit or loss	Gross amount RMB million	Tax effect RMB million	Total RMB million	Line item (gross amount) in the statement of profit or loss
Year ended 31 December 2019									
Capital expenditures	141	(35)	106	–	N/A	(82)	20	(62)	Finance Costs
Highly probable forecasted purchases	22	(6)	16	–	N/A	(22)	6	(16)	Finance Costs
Payment on bonds	14	(4)	10	–	N/A	(14)	4	(10)	Finance Costs
Payment on lease liabilities	(137)	34	(103)	–	N/A	(68)	17	(51)	Finance Costs

25 Other Non-Current Assets

	2019 **RMB million**	2018 RMB million
Deposits relating to aircraft held under leases	**156**	177
Deferred pilot recruitment costs	**1,873**	1,536
Rebate receivables on aircraft acquisitions	**42**	55
Prepayment for acquisition of property, plant and equipment	**1,095**	854
Others	**804**	748
	3,970	3,370

26 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:

	2019 **RMB million**	2018 RMB million
Deferred tax assets	**853**	207
Deferred tax liabilities	**(22)**	(84)
Net deferred tax assets	**831**	123

Movements in the net deferred tax assets/(liabilities) were as follows:

	2019 **RMB million**
At 31 December 2018	**123**
Effect of adoption of IFRS 16	**554**
At 1 January 2019 (restated)	**677**
Credited to profit or loss (Note 14)	**123**
Charged to other comprehensive income	**31**
At 31 December 2019	**831**

26 Deferred Taxation (continued)

	2018 RMB million
At 1 January 2018	(240)
Credited to profit or loss (Note 14)	294
Charged to other comprehensive income	69
At 31 December 2018	123

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:

	2019 RMB million	2018 RMB million
Deferred tax assets:		
Provision for lease return costs for aircraft and engines	**1,075**	—
Impairment provision for flight equipment spare parts	**53**	126
Impairment provision for receivables	**76**	75
Impairment provision for property, plant and equipment	**101**	103
Derivative financial instruments	**6**	7
Financial asset at fair value through profit or loss	**—**	6
Other payables and accruals	**71**	89
Government grants related to assets	**35**	42
Deferred gains in sale and leaseback transactions	**—**	6
Loss available for offsetting against future taxable profits	**66**	—
Aged payables	**1**	2
	1,484	456
Deferred tax liabilities:		
Lease liabilities/Right-of-use assets	**(352)**	—
Equity investments designated at fair value through other comprehensive income	**(283)**	(278)
Derivative financial instruments	**(18)**	(55)
	(653)	(333)
	831	123

26 Deferred Taxation (continued)

Movements in the net deferred tax assets/(liabilities) of the Group for the year were as follows:

	At 31 December 2018 RMB million	Effect of adoption of IFRS 16 RMB million	At 1 January 2019 (restated) RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At 31 December 2019 RMB million
For the year ended 31 December 2019						
Provision for lease return costs for aircraft and engines	–	882	882	193	–	1,075
Impairment provision for flight equipment spare parts	126	–	126	(73)	–	53
Impairment provision for receivables	75	–	75	1	–	76
Impairment provision for property, plant and equipment	103	–	103	(2)	–	101
Derivative financial instruments	7	–	7	–	(1)	6
Financial asset at fair value through profit or loss	6	–	6	(6)	–	–
Other payables and accruals	89	–	89	(18)	–	71
Government grants related to assets	42	–	42	(7)	–	35
Deferred gains in sale and leaseback transactions	6	–	6	(6)	–	–
Loss available for offsetting against future taxable profits	–	–	–	66	–	66
Aged payables	2	–	2	(1)	–	1
	456	882	1,338	147	(1)	1,484
Lease liabilities/Right-of-use assets	–	(328)	(328)	(24)	–	(352)
Equity investments designated at fair value through other comprehensive income	(278)	–	(278)	–	(5)	(283)
Derivative financial instruments	(55)	–	(55)	–	37	(18)
	(333)	(328)	(661)	(24)	32	(653)
Net deferred tax assets/(liabilities)	123	554	677	123	31	831

26 Deferred Taxation (continued)

Movements in the net deferred tax assets/(liabilities) of the Group for the year were as follows: (continued)

	At 1 January 2018 RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At 31 December 2018 RMB million
For the year ended 31 December 2018				
Impairment provision for flight equipment spare parts	51	75	—	126
Impairment provision for receivables	72	3	—	75
Impairment provision for property, plant and equipment	104	(1)	—	103
Derivative financial instruments	82	(78)	3	7
Financial asset at fair value through profit or loss	—	6	—	6
Other payables and accruals	29	60	—	89
Government grants related to assets	—	42	—	42
Deferred gains in sale and leaseback transactions	—	6	—	6
Aged payables	5	(3)	—	2
	343	110	3	456
Depreciation and amortisation	(56)	56	—	—
Equity investments designated at fair value through other comprehensive income	(361)	—	83	(278)
Derivative financial instruments	(38)	—	(17)	(55)
Passenger ticket breakage	(128)	128	—	—
	(583)	184	66	(333)
Net deferred tax assets/(liabilities)	(240)	294	69	123

The temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax has not been recognised in the periods presented, aggregate to RMB12,558 million (2018: RMB11,360 million).

26 Deferred Taxation (continued)

As at the reporting date, the Group had the following balances in respect of which deferred tax assets have not been recognised:

	2019		2018	
	Deferred taxation RMB million	Temporary differences RMB million	Deferred taxation RMB million	Temporary differences RMB million
Tax losses carried forward	54	217	67	267
Other deductible temporary differences	7	30	27	126
Total unrecognised deferred tax assets	61	247	94	393

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 2020 and 2024.

As at 31 December 2019, management carried out an assessment to determine whether future taxable profits will be available to utilise 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 recognised.

27 Flight Equipment Spare Parts

	2019 RMB million	2018 RMB million
Flight equipment spare parts	2,732	2,778
Less: provision for spare parts	(325)	(828)
	2,407	1,950

Movements in the Group's provision for impairment of flight equipment spare parts were as follows:

	2019 RMB million	2018 RMB million
At 1 January	828	531
Accrual (Note 9)	—	301
Amount written off in relation to disposal of spare parts	(503)	(4)
At 31 December	325	828

28 Trade and Notes Receivables

The credit terms given to trade customers are determined on an individual basis.

	2019 RMB million	2018 RMB million
Trade receivables	1,793	1,525
Notes receivable	—	4
	1,793	1,529
Impairment	(76)	(93)
	1,717	1,436

An ageing 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:

	2019 RMB million	2018 RMB million
Within 90 days	1,615	1,354
91 to 180 days	33	52
181 to 365 days	39	11
Over 365 days	30	15
	1,717	1,432

Balances with related parties included in trade and notes receivables are summarised in Note 48(c)(i).

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB million	2018 RMB million
At beginning of year	93	119
Impairment losses, net (Note 10)	(6)	(21)
Amount written off as uncollectible	(4)	(5)
Disposal of a subsidiary	(7)	—
At end of year	76	93

28 Trade and Notes Receivables (continued)

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 31 December 2019

		Past due			
	Current	Less than 90 days	90 to 365 days	Over 365 days	Total
Expected credit loss rate (%)	0.12	2.94	2.50	70.59	4.24
Gross carrying amount (RMB million)	1,617	34	40	102	1,793
Expected credit losses (RMB million)	2	1	1	72	76

As at 31 December 2018

		Past due			
	Current	Less than 90 days	90 to 365 days	Over 365 days	Total
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

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 losses on financial assets, net" in profit or loss (Note 10). Amounts charged to the allowance account are generally written off when there is no expectation of recovering.

29 Financial Assets at Fair Value Through Profit or Loss

	2019 RMB million	2018 RMB million
Listed equity investment, at fair value		
Shanghai Pudong Development Bank Co., Ltd.	121	96

The above equity investment was classified as a financial asset at fair value through profit or loss as it was held for trading.

30 Prepayments and Other Receivables

	2019 RMB million	2018 RMB million
Value added tax recoverable	**6,991**	5,484
Value added tax refundable	**800**	979
Subsidy receivable	**2,072**	2,092
Prepaid corporate income tax	**608**	306
Advance to suppliers	**129**	222
Prepaid aircraft operating lease rentals	**—**	478
Refundable advanced payment on acquisition of aircraft	**538**	—
Rebate receivables on aircraft acquisitions	**1,582**	1,399
Amounts due from related parties (Note 48(c)(i))	**776**	278
Deposits relating to aircraft held under leases	**29**	13
Other deposits	**168**	194
Others	**663**	577
	14,356	12,022
Provision for impairment of other receivables	**(263)**	(246)
	14,093	11,776

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			
	Stage 1	Stage 2 (Individually)	Stage 2 (Collectively)	Stage 3	Total
As at 1 January 2019	16	—	108	122	246
Transferred					
— to stage 2	(1)	—	1	—	—
Accrual	18	—	4	—	22
Disposal of a subsidiary	—	—	(5)	—	(5)
As at 31 December 2019	33	—	108	122	263

30 Prepayments and Other Receivables (continued)

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2 (Individually)	Stage 2 (Collectively)	Stage 3	Total
As at 1 January 2018	4	—	72	122	198
Transferred					
— to stage 2	(1)	—	1	—	—
Accrual	13	—	36	—	49
Reversal	—	—	(1)	—	(1)
As at 31 December 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			
	Stage 1	**Stage 2 (Individually)**	**Stage 2 (Collectively)**	**Stage 3**	**Total**
As at 1 January 2019	**2,298**	**298**	**259**	**122**	**2,977**
Transferred					
— to stage 2	**(160)**	**160**	**—**	**—**	**—**
Accrual	**1,066**	**—**	**(265)**	**—**	**801**
Reversal	**(26)**	**—**	**(17)**	**—**	**(43)**
As at 31 December 2019	**3,178**	**458**	**(23)**	**122**	**3,735**

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2 (Individually)	Stage 2 (Collectively)	Stage 3	Total
As at 1 January 2018	2,394	—	25	122	2,541
Transferred					
— to stage 2	(399)	298	101	—	—
Accrual	303	—	138	—	441
Reversal	—	—	(5)	—	(5)
As at 31 December 2018	2,298	298	259	122	2,977

31 Restricted Bank Deposits and Short-Term Bank Deposits

	2019 RMB million	2018 RMB million
Restricted bank deposits	**6**	16

32 Cash and Cash Equivalents

	2019 RMB million	2018 RMB million
Cash	**1**	1
Bank balances	**1,349**	645
	1,350	646

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB547 million (2018: RMB330 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 authorised 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.

33 Assets Classified as Held for Sale

The Group entered into agreements with China Aviation Supplies Co., Ltd to dispose of certain flight equipment. The flight equipment with an aggregate carrying amount of RMB6 million (2018:11 million) has been recognised as assets classified as held for sale by the Group as at 31 December 2019, which are stated at the lower of their carrying amounts and their fair value less cost to sell.

34 Trade and Bills Payables

An ageing analysis of the trade and bills payables as at the end of the reporting period was as follows:

	2019 RMB million	2018 RMB million
Within 90 days	**3,622**	3,594
91 to 180 days	**52**	49
181 to 365 days	**94**	157
1 to 2 years	**40**	100
Over 2 years	**69**	140
	3,877	4,040

Balances with related parties included in trade and bills payables are summarised in Note 48(c)(ii).

As at 31 December 2019, the Group held no bills payable (2018: RMB4 million).

35 Contract Liabilities

	2019 RMB million	2018 RMB million
Sales in advance of carriage	**8,754**	7,638
Frequent flyer program (Note 5)	**2,057**	2,046
Advances from customers	**866**	712
	11,677	10,396
Current portion	**10,178**	8,811
Non-current portion	**1,499**	1,585

36 Other Payables and Accruals

	2019 RMB million	2018 RMB million
Salaries, wages and benefits	**2,794**	2,854
Take-off and landing charges	**3,052**	2,828
Fuel cost	**1,109**	1,225
Expenses related to aircraft overhaul conducted	**1,810**	1,324
Deposits from customers	**18**	6
Duties and levies payable	**1,983**	1,792
Food and beverages	**253**	349
Payments on system services	**879**	650
Lease rentals of property, plant and equipment	**515**	411
Other accrued operating expenses	**991**	701
Payable for purchase of property, plant and equipment	**3,454**	2,783
Interest payable	**1,249**	1,189
Pending output value added tax	**412**	378
Deposits received from ticket sales agents	**507**	502
Other deposits	**570**	576
Current portion of other long-term liabilities (Note 41)	**294**	234
Staff housing allowance	**224**	265
Amounts due to related parties (Note 48(c)(ii))	**383**	1,093
Current portion of post-retirement benefit obligations (Note 40(b))	**165**	168
Others	**1,940**	1,815
	22,602	21,143

37 Obligations Under Finance Leases

As at 31 December 2018, the Group had 260 aircraft under finance leases. These leases were classified as finance leases prior to IFRS 16 becoming effective on 1 January 2019. Under the terms of the leases, the Group had 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 were principally denominated in USD.

At 31 December 2018, the future minimum lease payments under finance leases and their present values were as follows:

	2018 RMB million
Within one year	11,974
In the second year	12,014
In the third to fifth years, inclusive	30,018
After the fifth year	36,974
Total of minimum lease payments	90,980
Present values of minimum lease payments	79,006
Less: amounts repayable within one year	(9,364)
Non-current portion	68,063

38 Borrowings

	2019 RMB million	2018 RMB million
Non-current		
Long-term bank borrowings		
— secured (note (a))	**2,995**	3,934
— unsecured	**828**	4,556
Guaranteed bonds (note (b))	**12,784**	13,377
Unsecured bonds (note (b))	**9,997**	4,000
	26,604	25,867
Current		
Current portion of long-term bank borrowings		
— secured (note (a))	**939**	997
— unsecured	**1,009**	76
Current portion of guaranteed bonds (note (b))	**2,585**	732
Current portion of unsecured bonds (note (b))	**—**	4,834
Short-term bank borrowings		
— unsecured	**2,200**	8,120
Short-term debentures (note (c))	**18,500**	14,500
	25,233	29,259
	51,837	55,126

38 Borrowings (continued)

The borrowings are repayable as follows:

	2019 RMB million	2018 RMB million
Within one year	25,233	29,259
In the second year	8,104	7,469
In the third to fifth years, inclusive	14,821	14,258
After the fifth year	3,679	4,140
Total borrowings	51,837	55,126

Notes:

(a) As at 31 December 2019, the secured bank borrowings of the Group were secured by the related aircraft and buildings with a net carrying amount of RMB7,243 million (2018: RMB8,391 million) (Note 17).

(b) On 18 March 2013, the Company issued ten-year guaranteed bonds with a principal amount of RMB4.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 5.05% per annum, which is payable annually. The principal of the bonds will mature and become repayable on 18 March 2023. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 48(d)).

On 14 July 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 14 July 2021.

On 24 October 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 24 October 2026. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 48(d)).

On 16 November 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 16 November 2020. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On 16 March 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 16 March 2021. Sumitomo Mitsui Banking Corporation (Hong Kong) has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On 16 March 2018, the Company issued three-year Credit Enhanced bonds with a total principal amount of JPY20 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 16 March 2021. The bonds are secured by a standby letter of credit issued by Bank of China Limited acting through its Tokyo Branch.

On 16 March 2018, the Company issued three-year Credit Enhanced bonds with a total principal amount of JPY20 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 16 March 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.

On 7 March 2019, 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 3.70% per annum, which is payable annually. The principal of the bonds will mature and become repayable on 7 March 2022.

On 19 August 2019, the Company issued five-year corporate bonds with a total principal amount of RMB3 billion. The bonds bear interest at the rate of 3.60% per annum, which is payable annually. The principal of the bonds will mature and become repayable on 19 August 2024.

On 6 December 2019, Eastern Air Overseas issued three-year corporate bonds with a principal amount of KRW300 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 2.40% per annum, which is payable annually. The principal of the bonds will mature and become repayable on 6 December 2022. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

38 Borrowings (continued)

Notes: (continued)

(c) On 29 May 2019, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 267 days. The debentures bear interest at the rate of 3.10% per annum.

On 13 June 2019, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 266 days. The debentures bear interest at the rate of 3.15% per annum.

On 3 July 2019, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 267 days. The debentures bear interest at the rate of 2.98% per annum.

On 25 October 2019, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 179 days. The debentures bear interest at the rate of 2.00% per annum.

On 15 November 2019, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.00% per annum.

On 26 November 2019, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 177 days. The debentures bear interest at the rate of 1.70% per annum.

On 6 December 2019, the Company issued short-term debentures with a principal of RMB2.5 billion and maturity of 270 days. The debentures bear interest at the rate of 2.00% per annum.

The terms of the long-term borrowings and bonds were summarised as follows:

	Interest rate and final maturities	2019 RMB million	2018 RMB million
Long-term bank borrowings			
RMB denominated	interest rates ranging from 2.65% to 3.92% with final maturities through 2024 (2018: 3.10% to 3.48%)	1,828	4,528
USD denominated	interest rates ranging from 6-month libor +0.70% to 6-month libor +1.65% with final maturities through 2022 (2018: 6-month libor +0.55% to 6-month libor +2.85%)	870	1,469
EUR denominated	interest rates at 3 months Euribor+0.5% with final maturities through 2026 (2018: 3 months Euribor+0.5%)	3,073	3,566
Guaranteed bonds			
RMB denominated	interest rates ranging from 3.03% to 5.05% with final maturities through 2026 (2018: 3.03% to 5.05%)	7,796	7,795
SGD denominated	interest rates at 2.80% with final maturities through 2020 (2018: 2.80%)	2,585	2,498
JPY denominated	interest rates ranging from 0.33% to 0.64% with final maturities through 2021 (2018: 0.33% to 0.64%)	3,197	3,084
KRW denominated	interest rate at 2.40% with final maturities through 2022 (2018: 2.05%)	1,791	732
Unsecured bonds			
RMB denominated	interest rates ranging from 3.39% to 3.70% with final maturities through 2024 (2018: from 3.00% to 3.39%)	9,997	8,500
KRW denominated	interest rate at 2.85% with final maturities through 2019 (2018: 2.85%)	–	334
		31,137	32,506

Short-term borrowings of the Group are repayable within one year. As at 31 December 2019, the interest rates relating to such borrowings was 3.30% (2018: 2.97% to 4.48% per annum).

39 Provision for Lease Return Costs for Aircraft and Engines

Details of provision for lease return costs for aircraft and engines are as follows:

	2019 RMB million	2018 RMB million
Carrying amount at 1 January	2,906	3,019
Effect of adoption IFRS 16	3,654	—
Carrying amount At 1 January (restated)	6,560	3,019
Accrual	702	402
Utilisation	(84)	(515)
At 31 December	7,178	2,906
Less: current portion	(519)	(145)
Non-current portion	6,659	2,761

40 Post-Retirement Benefit Obligations

(a) Pension — defined contribution

The group companies participate in defined contribution retirement schemes organised by municipal governments of various provinces in which the group companies operate. Substantially all of the Group's PRC employees are eligible to participate in these defined contribution retirement schemes. Therefore, the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. In addition, the group companies have implemented an additional defined contribution retirement pension scheme for eligible employees since 2014.

As at 31 December 2019 and 2018, the Group cannot use forfeited contributions to reduce its contributions to the pension schemes.

(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 recognised 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 31 December 2019 with assistance from a third party consultant using the projected unit credit actuarial valuation method.

The post-retirement benefit obligations recognised in the consolidated statement of financial position are as follows:

	2019 RMB million	2018 RMB million
Post-retirement benefit obligations	2,584	2,712
Less: current portion	(165)	(168)
Non-current portion	2,419	2,544

40 Post-Retirement Benefit Obligations (continued)

(b) Post-retirement benefits (continued)

The principal actuarial assumptions utilised as at the end of the reporting period are as follows:

	2019	2018
Discount rates for post-retirement benefits	3.40%	3.50%
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%

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in post-retirement benefit obligations RMB million	Decrease in rate %	Increase/ (decrease) in post-retirement benefit obligations RMB million
2019				
Discount rate for post-retirement benefits	0.25	(74)	0.25	77
Annual increase rate of pension benefits	1.00	260	1.00	(222)
Annual increase rate of medical expenses	1.00	36	1.00	(30)
2018				
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)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

40 Post-Retirement Benefit Obligations (continued)

(b) Post-retirement benefits (continued)

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

	2019 RMB million	2018 RMB million
Within the next 12 months	165	168
Between 2 and 5 years	661	678
Between 6 and 10 years	809	841
Over 10 years	2,534	2,802
Total expected payments	4,169	4,489

The average duration of the post-retirement benefit obligations at the end of 2019 was 13 years (2018: 13 years).

The movements in the post-retirement benefit obligations were as follows:

2019

		Pension cost charged to profit or loss			Remeasurement (gains)/losses in other comprehensive income					
	1 January 2019 RMB million	Service cost RMB million	Net interest RMB million	Sub-total included in profit or loss RMB million	Actuarial changes arising from changes in financial assumptions RMB million	Actuarial changes arising from changes in demographic assumptions RMB million	Experience adjustments RMB million	Sub-total included in other comprehensive income RMB million	Benefit settled RMB million	31 December 2019 RMB million
Defined benefit obligations/ benefit liability	2,712	–	92	92	30	–	(70)	(40)	(180)	2,584

2018

		Pension cost charged to profit or loss			Remeasurement (gains)/losses in other comprehensive income					
	1 January 2018 RMB million	Service cost RMB million	Net interest RMB million	Sub-total included in profit or loss RMB million	Actuarial changes arising from changes in financial assumptions RMB million	Actuarial changes arising from changes in demographic assumptions RMB million	Experience adjustments RMB million	Sub-total included in other comprehensive income RMB million	Benefit settled RMB million	31 December 2018 RMB million
Defined benefit obligations/ benefit liability	2,670	–	106	106	184	–	(69)	115	(179)	2,712

41 Other Long-Term Liabilities

	2019 RMB million	2018 RMB million
Long-term duties and levies payable relating to finance leases	**1,487**	1,398
Deferred gains in sale and leaseback transactions	**—**	1,115
Deferred gains relating to government grants	**152**	179
Provision for early retirement benefit obligations and other benefit obligations	**295**	324
Other long-term payables	**638**	666
	2,572	3,682
Less: current portion included in other payables and accruals (Note 36)	**(294)**	(234)
Non-current portion	**2,278**	3,448

42 Share Capital

	2019 RMB million	2018 RMB million
Registered, issued and fully paid of RMB1.00 each		
A shares listed on the Shanghai Stock Exchange (“A Shares”)	**11,202**	9,808
— Tradable shares with trading moratorium	**1,394**	—
— Tradable shares without trading moratorium	**9,808**	9,808
H shares listed on the Stock Exchange of Hong Kong Limited (“H Shares”)	**5,177**	4,659
— Tradable shares with trading moratorium	**518**	—
— Tradable shares without trading moratorium	**4,659**	4,659
	16,379	14,467

Pursuant to articles 50 and 51 of the Company’s articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

A summary of movements in the Company’s share capital is as follows:

	Number of shares in issue million
At 31 December 2018 and 1 January 2019	**14,467**
Issue of shares (note(a))	**1,912**
At 31 December 2019	**16,379**

42 Share Capital (continued)

Note

(a) According to the approval of the China Securities Regulatory Commission, the Company completed the non-public issuance of 518 million H shares to Shanghai Juneyao Airlines Hong Kong Co., Ltd. on 29 August 2019, raising a total of RMB2,002 million in net funds. The Company also completed the non-public issuance of 1,394 million A shares to four specific investors, including Shanghai Juneyao Airlines Co., Ltd. on 30 August 2019, raising a total of RMB7,440 million in net funds.

43 Reserves

	Share premium RMB million	Capital reserve (note (a)) RMB million	Hedging reserve RMB million	Statutory reserve (note (b)) RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2018	29,540	(778)	91	540	(2,038)	14,566	41,921
Unrealised gains on cash flow hedges (Note 24)	–	–	43	–	–	–	43
Fair value movements in equity investments designated at fair value through other comprehensive income	–	–	–	–	(248)	–	(248)
Fair value changes of equity investments designated at fair value through other comprehensive income held by an associate	–	–	–	–	(24)	–	(24)
Actuarial gains on post-retirement benefit obligations	–	–	–	–	(111)	–	(111)
Transfer from retained profits	–	–	–	30	–	(30)	–
Profit for the year	–	–	–	–	–	2,698	2,698
Final 2017 dividend	–	–	–	–	–	(738)	(738)
At 31 December 2018	29,540	(778)	134	570	(2,421)	16,496	43,541
Effect of adoption of IFRS 16	–	–	–	–	–	(1,595)	(1,595)
At 1 January 2019 (restated)	29,540	(778)	134	570	(2,421)	14,901	41,946
Unrealised gains on cash flow hedges (Note 24)	–	–	(110)	–	–	–	(110)
Fair value movements in equity investments designated at fair value through other comprehensive income	–	–	–	–	13	–	13
Fair value changes of equity investments designated at fair value through other comprehensive income held by an associate	–	–	–	–	7	–	7
Actuarial gains on post-retirement benefit obligations	–	–	–	39	–	–	39
Transfer from retained profits	–	–	–	212	–	(212)	–
Profit for the year	–	–	–	–	–	3,192	3,192
Final 2018 dividend	–	–	–	–	–	–	–
Issue of shares	7,530	–	–	–	–	–	7,530
Others	–	11	–	–	–	1	12
At 31 December 2019	37,070	(767)	24	821	(2,401)	17,882	52,629

43 Reserves (continued)

Notes:

(a) Capital reserve

Capital reserve mainly 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.

44 Partly-Owned Subsidiaries with Material Non-Controlling Interests

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

	2019	2018
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%

	2019 RMB million	2018 RMB million
Profit for the year allocated to non-controlling interests:		
CEA Jiangsu	115	114
CEA Yunnan	50	33
CEA Wuhan	128	88
Dividends paid to non-controlling interests of CEA Jiangsu	37	56
Dividends paid to non-controlling interests of CEA Wuhan	45	—
Accumulated balances of non-controlling interests at the reporting date:		
CEA Jiangsu	1,445	1,471
CEA Yunnan	704	674
CEA Wuhan	1,511	1,483

44 Partly-Owned Subsidiaries with Material Non-Controlling Interests (continued)

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

2019	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million
Revenue	9,774	11,634	4,743
Total expenses	9,466	11,110	4,424
Profit for the year	308	524	319
Total comprehensive income for the year	309	524	328
Current assets	1,116	575	369
Non-current assets	12,620	19,210	7,917
Current liabilities	(2,486)	(3,623)	(1,611)
Non-current liabilities	(7,390)	(8,859)	(2,897)
Net cash flows from operating activities	1,930	2,457	885
Net cash flows used in investing activities	(16)	(425)	(222)
Net cash flows used in financing activities	(1,874)	(2,031)	(666)
Effect of foreign exchange rate changes, net	—	—	—
Net increase/(decrease) in cash and cash equivalents	40	1	(3)

44 Partly-Owned Subsidiaries with Material Non-Controlling Interests (continued)

2018	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million
Revenue	9,313	10,523	4,559
Total expenses	9,008	10,183	4,340
Profit for the year	305	340	219
Total comprehensive income for the year	297	340	217
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)

45 Disposal of a Subsidiary

On 19 March 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"), previously a wholly-owned subsidiary of the Company, and subscribe its newly issued shares with monetary capital in an aggregate amount of RMB251 million. As of 17 May 2019, the capital injection and share expansion has been completed. After that, the Company's equity interest in Shanghai Airlines Tours was diluted to 35%, and Greenland Holdings held 65% of the equity interest in Shanghai Airlines Tours. Shanghai Airlines Tours ceased to be a subsidiary of the Company as a result of the dilution.

45 Disposal of a Subsidiary (continued)

The details of the assets and liabilities disposed of relating to the disposal of a subsidiary are summarised as follows:

	At date of disposal RMB million
Net assets disposed of:	
Property, plant and equipment	26
Investments in associates	9
Right-of-use assets	10
Other non-current assets	3
Prepayments and other receivables	278
Restricted bank deposits and short-term bank deposits	251
Trade and notes receivables	115
Cash and cash equivalents	90
Trade and bills payables	(79)
Contract liabilities	(284)
Other payables and accruals	(378)
Lease liabilities	(10)
Net assets	31
Gain on disposal of a subsidiary	64
Satisfied by:	
Investment in an associate	95

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2019 RMB million
Cash consideration	–
Cash and bank balances disposed of	90
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(90)

46 Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	2019 RMB million	2018 RMB million
Profit before income tax	**4,299**	3,856
Adjustments for:		
Depreciation of property, plant and equipment	**9,078**	14,616
Depreciation of right-of-use assets	**12,298**	—
Depreciation of investment properties	**25**	26
Amortisation of intangible assets	**143**	160
Amortisation of lease prepayments	**—**	43
Amortisation of other non-current assets	**536**	468
Gain on disposal of property, plant and equipment	**(22)**	(267)
Gain on disposal of lease prepayments	**—**	(210)
Gain on disposal of an investment in a subsidiary	**(64)**	—
Gain on disposal of an investment in an associate	**—**	(5)
Dividend income from equity investments at fair value through other comprehensive income	**(19)**	(23)
Dividend income from a financial asset at fair value through profit or loss	**(3)**	(6)
Share of results of associates	**(265)**	(170)
Share of results of joint ventures	**(17)**	(34)
Net foreign exchange loss	**890**	1,983
(Gain)/loss on fair value change of financial asset at fair value through profit or loss	**(25)**	27
Fair value changes of derivative financial instruments	**—**	(311)
Impairment charges	**4**	318
Impairment losses on financial assets, net	**16**	27
Interest income	**—**	(110)
Interest expense	**5,169**	3,727
Operating profit before working capital changes	**32,043**	24,115
Changes in working capital		
Flight equipment spare parts	**(457)**	(66)
Trade and notes receivables	**(275)**	708
Prepayments and other receivables	**(2,336)**	(2,056)
Contract liabilities	**1,281**	1,051
Restricted bank deposits and short-term bank deposits	**9**	35
Trade and bills payables	**(163)**	856
Other payables and accruals	**1,459**	36
Staff housing allowances	**—**	(36)
Other long-term liabilities	**(1,916)**	(525)
Post-retirement benefit obligations	**(125)**	42
Provision for lease return costs for aircraft and engines	**617**	(113)
Cash generated from operations	**30,137**	24,047

46 Notes to the Consolidated Statement of Cash Flows (continued)

(b) Major non-cash transactions*

	2019 RMB million	2018 RMB million
Additions to right-of-use assets and lease liabilities	24,434	—
Finance lease obligations incurred for acquisition of aircraft	—	7,945

* Disposal of a subsidiary of the Company for the current year also comprised a major non-cash transaction as disclosed in Note 45 .

(c) Changes in liabilities arising from financing activities

	Bank and other loans RMB million	Obligations under finance leases/ Lease liabilities RMB million
At 31 December 2018	55,126	77,427
Effect of adoption of IFRS 16	—	31,879
At 1 January 2019 (restated)	55,126	109,306
Changes from financing cash flows	(3,427)	(23,895)
Foreign exchange movement	139	851
Disposal of a subsidiary	—	(10)
New leases	—	24,023
At 31 December 2019	51,838	110,275
At 1 January 2018	63,801	66,868
Changes from financing cash flows	(9,076)	(9,629)
Foreign exchange movement	401	1,419
New finance leases	—	18,769
At 31 December 2018	55,126	77,427

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB million
Within operating activities	(631)
Within investing activities	(1,449)
Within financing activities	(27,789)

47 Commitments

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB million	2018 RMB million
Contracted for:		
— Aircraft, engines and flight equipment (note)	47,822	70,998
— Other property, plant and equipment	4,917	6,481
— Investments	860	590
	53,599	78,069

Note:

(i) 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:

	2019 RMB million	2018 RMB million
Within one year	18,388	29,187
In the second year	12,442	24,735
In the third year	11,956	11,809
In the fourth year	3,892	4,674
Over four years	1,144	593
	47,822	70,998

The above capital commitments represent the future outflow of cash or other resources.

(ii) On 11 March 2019, the Civil Aviation Administration of China ordered all domestic airlines to ground all 737MAX-8 aircraft. The Group has 46 737MAX-8 aircraft on order as at 31 December 2019 and has not taken delivery of any 737MAX-8 aircraft since the grounding. Due to uncertainty surrounding the timing of delivery of certain aircraft, the amounts in the above table represent the Group's best estimate, including with respect to the delivery of 737MAX-8 aircraft. However, the actual delivery schedule may differ from the table above.

47 Commitments (continued)

(b) Operating lease commitments as at 31 December 2018

As at 31 December 2018, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

	2018 RMB million
Aircraft, engines and flight equipment	
Within one year	4,990
In the second year	5,371
In the third to fifth years, inclusive	12,041
After the fifth year	14,169
	36,571
Land and buildings	
Within one year	398
In the second year	175
In the third to fifth years, inclusive	59
After the fifth year	75
	707
	37,278

(c) The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are RMB62 million due within one year, RMB16 million due in the second to fifth years.

(d) Lease commitments for short-term leases amounted to RMB83 million as at 31 December 2019.

48 Related Party Transactions

The Group is controlled by CEA Holding, which directly owns 30.97% of the Company's shares as at 31 December 2019 (2018: 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 16.03% and 2.79% respectively as at 31 December 2019 (2018: 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:

Name of related party	Relationship with the Group
Eastern Air Group Finance Co., Ltd. ("Eastern Air Finance Company")	Associate of the Company
Eastern Aviation Import & Export Co., Ltd. and its subsidiaries ("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 ("Eastern Advertising")	Associate of the Company
Shanghai Collins Aviation Maintenance Service Co., Ltd. ("Collins Aviation")	Associate of the Company
Shanghai Airlines Tours International (Group) Co., Ltd. and its subsidiaries ("Shanghai Airlines Tours")	Associate of the Company
Beijing Xinghang Aviation Property Co., Ltd. ("Beijing Aviation Property")	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
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace")	Joint venture of the Company
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. and its subsidiaries ("Eastern Investment")	Controlled by the same parent company
Eastern Air Logistics Co., Ltd. and its subsidiaries ("Eastern Logistics")	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
Juneyao Airlines Co., Ltd and its subsidiaries ("Juneyao Air")	A director and vice president of the Company is a director of Juneyao Air

48 Related Party Transactions (continued)

(b) Related party transactions

Nature of transaction	Related party	Pricing policy and decision process	2019 RMB million	2018 RMB million
Purchase of goods and services				
Payments on food and beverages*	Eastern Air Catering	(i)	1,471	1,317
	CEA Development	(i)	—	78
	Eastern Import & Export	(i)	56	60
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)	142	165
Repairs and maintenance expense for aircraft and engines	Shanghai P&W	(i)	1,762	2,394
	Technologies Aerospace	(i)	221	344
	Wheels & Brakes	(i)	144	129
	Shanghai Hute	(i)	88	74
	XIESA	(i)	2	—
Payments on cabin cleaning services	Eastern Advertising	(i)	22	20
Advertising expense*	Eastern Advertising	(i)	29	19
Payments on system services	China Kaiya	(i)	16	21
Equipment maintenance fee*	Collins Aviation	(i)	45	60
	CEA Development	(i)	119	71
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products*	CEA Development	(i)	13	13
Property management and green maintenance expenses*	CEA Development	(i)	205	102
Payments on hotel accommodation service*	CEA Development	(i)	134	127
	Shanghai Airlines Tours	(i)	23	—
Payments on construction and and management agent	Eastern Investment	(i)	14	18
Payments on logistics services	Eastern Import & Export	(i)	49	142
	Eastern Logistics	(i)	53	—
Civil aviation information network services**	TravelSky	(i)	753	646
Flight equipment spare parts maintenance**	CASC	(i)	143	189
Flight training fee	CAE Melbourne	(i)	70	75
Payments on aviation transportation cooperation and support services**	AFK	(i)	537	425
Payments on aviation transportation cooperation services	Juneyao Air	(i)	2	—
Flight equipment spare parts maintenance and support services**	AFK	(i)	19	2

48 Related Party Transactions (continued)

(b) Related party transactions (continued)

Nature of transaction	Related party	Pricing policy and decision process	2019 RMB million	2018 RMB million
Purchase of goods and services (continued)				
Bellyhold space management*	Eastern Logistics	(i)	—	32
Bellyhold space operation cost*	Eastern Logistics	(i)	310	246
Transfer of pilots	Eastern Logistics	(i)	11	24
Cargo terminal business support services*	Eastern Logistics	(i)	481	348
Bellyhold container management	Eastern Logistics	(i)	13	11
Provision of services				
Contractual revenue from bellyhold space*	Eastern Logistics	(i)	3,826	2,795
Freight logistics support services*	Eastern Logistics	(i)	135	126
Software system and support services	Eastern Logistics	(i)	4	42
Transfer of freight depots and equipment	Eastern Logistics	(i)	—	28
Media royalty fee	Eastern Advertising	(i)	15	14
Aviation transportation cooperation and support services**	AFK	(i)	593	728
Aviation transportation cooperation services	Juneyao Air	(i)	11	—
Flight equipment spare parts maintenance and support services	Juneyao Air	(i)	41	—
Lease Payments				
Lease payments for land and buildings under short-term leases* (2018: Land and building rental)	CEA Holding	(ii)	40	33
	Eastern Investment	(ii)	83	—
Settlements of lease liabilities on aircraft and engines* (2018: Payments on operating leases and finance leases)	CES Lease Company	(ii)	5,779	3,984
Interest expense				
Interest expense on loans	CEA Holding	(iii)	27	13
	Eastern Air Finance Company	(iii)	5	—
Interest income				
Interest income on deposits	Eastern Air Finance Company	(iii)	15	26

(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.

48 Related Party Transactions (continued)

(b) Related party transactions (continued)

* 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 31 December 2019 and 2018, 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.

(c) Balances with related parties

(i) Amounts due from related parties

	2019 RMB million	2018 RMB million
Trade and notes receivables		
Eastern Logistics	**295**	—
CASC	**23**	—
Juneyao Air	**10**	—
Eastern Air Catering	**1**	1
Others	**5**	—
	334	1

	2019 RMB million	2018 RMB million
Prepayments and other receivables		
Eastern Import & Export	**272**	133
Technologies Aerospace	**7**	31
Eastern Air Catering	**6**	16
Eastern Advertising	**28**	28
CEA Development	**7**	7
CEA Holding	**—**	25
CASC	**13**	12
CES Global	**—**	3
TravelSky	**7**	—
Juneyao Air	**10**	—
Eastern Air Finance Company	**405**	—
Others	**21**	23
	776	278

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

48 Related Party Transactions (continued)

(c) Balances with related parties (continued)

(ii) Amounts due to related parties

	2019 RMB million	2018 RMB million
Trade and bills payables		
Eastern Import & Export	421	229
Eastern Logistics	—	167
Eastern Air Catering	390	272
Technologies Aerospace	104	141
CEA Development	76	15
Shanghai P&W	465	—
Collins Aviation	7	1
CEA Holding	18	13
CASC	17	18
Shanghai Hute	13	15
TravelSky	22	333
Wheels & Brakes	17	14
Shanghai Airlines Tours	3	—
Beijing Aviation Property	101	—
Others	7	1
	1,661	1,219

	2019 RMB million	2018 RMB million
Other payables and accruals		
Eastern Import & Export	5	129
Shanghai P&W	—	315
Eastern Air Catering	2	1
CEA Holding	111	104
Eastern Advertising	—	3
China Kaiya	—	2
CEA Development	1	49
CAE Melbourne	—	311
Eastern Investment	86	10
CES Lease Company	166	164
CASC	2	2
XIESA	2	—
Others	8	3
	383	1,093

48 Related Party Transactions (continued)

(c) Balances with related parties (continued)

(ii) Amounts due to related parties (continued)

	2019 RMB million	2018 RMB million
Contract liabilities		
Eastern Logistics	–	6

	2019 RMB million	2018 RMB million
Lease liabilities (2018: Obligations under finance leases)		
CES Lease Company	42,848	30,190

Except for the amounts due to CES Lease Company, which are related to the aircraft under lease, 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 2019	Average interest rate 2018	2019 RMB million	2018 RMB million
Short-term deposits (included in cash and cash equivalents)				
Eastern Air Finance Company	0.35%	0.35%	1,122	282
Long-term borrowings (included in borrowings)				
CEA Holding	3.86%	3.89%	828	528
Loan to a joint venture				
CAE Melbourne	3.74%	3.74%	15	20

(d) Guarantees by the holding company

As at 31 December 2019, bonds of the Group guaranteed by CEA Holding amounted to RMB7.8 billion (2018: RMB7.8 billion).

48 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 analysed as follows:

	2019 RMB million	2018 RMB million
Directors and supervisors	1	2
Senior management	8	8
	9	10

49 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 assets at fair value through profit or loss RMB million	Financial assets at fair value through other comprehensive income RMB million	Financial assets at amortised cost RMB million	Derivatives designated as hedging instruments RMB million	Total RMB million
2019					
Financial assets					
Equity investments designated at fair value through other comprehensive income	–	1,274	–	–	1,274
Derivative financial instruments	–	–	–	70	70
Financial assets included in other non-current assets	–	–	180	–	180
Trade and notes receivables	–	–	1,717	–	1,717
Financial asset at fair value through profit or loss	121	–	–	–	121
Financial assets included in prepayments and other receivables	–	–	11,711	–	11,711
Restricted bank deposits and short-term bank deposits	–	–	6	–	6
Cash and cash equivalents	–	–	1,350	–	1,350
Total	121	1,274	14,964	70	16,429

49 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)

	Financial liabilities at amortised cost RMB million	Derivatives designated as hedging instruments RMB million	Total RMB million
Financial liabilities			
Trade and bills payables	3,877	—	3,877
Financial liabilities included in other payables and accruals	22,602	—	22,602
Lease liabilities	110,275	—	110,275
Borrowings	51,837	—	51,837
Derivative financial instruments	—	23	23
Total	188,591	23	188,614

	Financial assets at fair value through profit or loss RMB million	Financial assets at fair value through other comprehensive income RMB million	Financial assets at amortised cost RMB million	Derivatives designated as hedging instruments RMB million	Total RMB million
2018					
Financial assets					
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
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

49 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)

	Financial liabilities at amortised cost RMB million	Derivatives designated as hedging instruments RMB million	Total RMB million
Financial liabilities			
Trade and bills payables	4,040	—	4,040
Financial liabilities included in other payables and accruals	21,143	—	21,143
Obligations under finance leases	77,427	—	77,427
Borrowings	55,126	—	55,126
Derivative financial instruments	—	29	29
Total	157,736	29	157,765

50 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:

	31 December 2019		31 December 2018	
	Carrying amounts RMB million	**Fair values RMB million**	Carrying amounts RMB million	Fair values RMB million
Financial assets				
Equity investments designated at fair value through other comprehensive income	**1,274**	**1,274**	1,247	1,247
Financial asset at fair value through profit or loss	**121**	**121**	96	96
Derivative financial assets	**70**	**70**	223	223
Deposits relating to aircraft held under leases included in other non-current assets	**156**	**148**	177	154
Total	**1,621**	**1,613**	1,743	1,720

50 Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

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: (continued)

	31 December 2019		31 December 2018	
	Carrying amounts RMB million	Fair values RMB million	Carrying amounts RMB million	Fair values RMB million
Financial liabilities				
Derivative financial liabilities	23	23	29	29
Long-term borrowings	26,604	23,754	25,867	25,875
Lease liabilities	94,685	89,491	—	—
Obligations under finance leases	—	—	68,063	64,521
Total	121,312	113,268	93,959	90,425

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 leases included in other non-current assets, long-term borrowings and lease liabilities (2018: 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 31 December 2019, the mark-to-market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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, 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 to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("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.

50 Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Discount for lack of marketability	2019: 20% to 35% (2018: 19% to 41%)	1% (2018: 1%) increase/decrease in multiple would result in increase/decrease in fair value by RMB11 million (2018: RMB11 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 31 December 2019	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	Total RMB million
Assets				
Equity investments designated at fair value through other comprehensive income	496	—	778	1,274
Derivative financial assets				
— Interest rate swaps	—	70	—	70
Financial asset at fair value through profit or loss	121	—	—	121
Total	617	70	778	1,465
Liabilities				
Derivative financial Liabilities				
— Forward currency contracts	—	23	—	23
Total	—	23	—	23

50 Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value: (continued)

As at 31 December 2018	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	Total RMB million
Assets				
Equity investments designated at fair value through other comprehensive income	510	—	737	1,247
Derivative financial assets				
— Interest rate swaps	—	223	—	223
Financial asset at fair value through profit or loss	96	—	—	96
Total	606	223	737	1,566
Liabilities				
Derivative financial liabilities				
— Forward currency contracts	—	29	—	29
Total	—	29	—	29

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 (2018: Nil).

50 Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy (continued)

Assets and liabilities for which fair values are disclosed:

As at 31 December 2019	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB million	**Significant observable inputs (Level 2) RMB million**	**Significant unobservable inputs (Level 3) RMB million**	**Total RMB million**
Assets				
Deposits relating to aircraft held under leases included in other non-current assets	—	148	—	148
Liabilities				
Long-term borrowings	2,897	20,857	—	23,754
Lease liabilities	—	89,491	—	89,491
	2,897	110,496	—	113,393

As at 31 December 2018	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	Total RMB million
Assets				
Deposits relating to aircraft held under leases included in other non-current assets	—	154	—	154
Liabilities				
Long-term borrowings	2,861	23,014	—	25,875
Obligations under finance leases	—	64,521	—	64,521
	2,861	87,535	—	90,396

51 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 minimise 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 authorised 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 the foreign currency risk. As at 31 December 2019, the forward currency contracts at notional value were RMB5,414 million. Details of the forward currency contracts are disclosed in Note 24 to the consolidated financial statements.

51 Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

The following tables detail the Group's exposure to major currency risk at the reporting date:

	2019			
	USD	EUR	SGD	KRW
	RMB million	RMB million	RMB million	RMB million
Trade receivables	28	47	5	10
Cash and cash equivalents	635	63	5	11
Other receivables	2,065	3	1	130
Other non-current assets	180	—	—	—
Trade and other payables	(105)	(3)	—	—
Lease liabilities	(45,674)	—	(397)	—
Borrowings	(870)	(3,073)	(2,587)	(1,810)

	2018			
	USD	EUR	SGD	KRW
	RMB million	RMB million	RMB million	RMB million
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)

51 Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

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 date:

	2019		2018	
	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
If RMB (weakens)/strengthens against USD	(328)/328	41/(41)	(178)/178	34/(34)
If RMB (weakens)/strengthens against EUR	(22)/22	—	(26)/26	—
If RMB (weakens)/strengthens against SGD	(22)/22	—	(23)/23	—
If RMB (weakens)/strengthens against KRW	(12)/12	—	(7)/7	—

Interest rate risk

The Group's interest rate risk primarily arises from borrowings and lease liabilities (2018: 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 38 and 24 to the consolidated financial statements.

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

	2019 RMB million	2018 RMB million
Floating rate instruments		
Cash and cash equivalents	1,350	646
Restricted bank deposits and short-term bank deposits	6	16
Borrowings	(3,943)	(9,705)
Lease liabilities/Obligations under finance leases	(49,851)	(50,761)
Interest rate swaps at notional amount	6,194	7,566

	2019 RMB million	2018 RMB million
Fixed rate instruments		
Borrowings	(47,929)	(45,477)
Lease liabilities/Obligations under finance leases	(60,423)	(26,666)

51 Financial Risk Management Objectives and Policies (continued)

Interest rate risk (continued)

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:

	2019		2018	
	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
Floating rate instruments	**(98)**	**12**	(112)	14

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 29% of the Group's operating expenses (2018: 33%).

For the year ended 31 December 2019, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB1,710 million higher/lower (2018: RMB1,684 million higher/lower).

As at 31 December 2019 and 2018, 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 organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB835 million as at 31 December 2019 (2018: approximately RMB637 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 48(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.

51 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 leases (2018: finance leases) or bank loans.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB million	1 to 2 years RMB million	2 to 5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2019					
Borrowings	26,422	8,796	15,882	3,872	54,972
Lease liabilities	19,870	15,276	39,935	45,129	120,210
Trade, bills and other payables	26,479	—	—	—	26,479
Total	72,771	24,072	55,817	49,001	201,661

	Less than 1 year RMB million	1 to 2 years RMB million	2 to 5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2018					
Borrowings	30,813	8,074	15,500	4,431	58,818
Obligations under finance leases	11,974	12,014	30,018	36,974	90,980
Trade, bills and other payables	19,747	—	—	—	19,747
Total	62,534	20,088	45,518	41,405	169,545

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 29) and equity investments designated at fair value through other comprehensive income (Note 23) as at 31 December 2019. 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.

51 Financial Risk Management Objectives and Policies (continued)

Equity price risk (continued)

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:

	31 December 2019	High/Low 2019	31 December 2018	High/Low 2018
Hong Kong — Hang Seng Index	**28,190**	**30,157/25,064**	25,846	33,154/24,586
Shanghai — A Share Index	**3,196**	**3,426/2,580**	2,611	3,728/2,600

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 31 December 2019.

	Carrying amount of equity investment RMB million	Increase/(decrease) in profit or loss RMB million	Increase/(decrease) in comprehensive income RMB million
2019			
Investments listed in:			
Hong Kong — Equity investment designated at fair value through other comprehensive income	**496**	**—**	**37/(37)**
Shanghai — Financial asset at fair value through profit or loss	**121**	**9/(9)**	**—**
Unlisted investments at fair value:			
— Equity investment designated at fair value through other comprehensive income	**778**	**—**	**58/(58)**
2018			
Investments listed in:			
Hong Kong — Equity investment designated at fair value through other comprehensive income	510	—	38/(38)
Shanghai — Financial asset at fair value through profit or loss	96	7/(7)	—
Unlisted investments at fair value:			
— Equity investment designated at fair value through other comprehensive income	737	—	55/(55)

51 Financial Risk Management Objectives and Policies (continued)

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 maximise 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 31 December 2019 and 31 December 2018.

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratios as at the end of the reporting periods were as follows:

	31 December 2019 RMB million	1 January 2019 RMB million	31 December 2018 RMB million
Total liabilities	**212,539**	211,750	177,416
Total assets	**285,185**	271,593	239,017
Debt ratio	**75%**	79%	74%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in a decrease in the Group's net assets and hence the Group's debt ratio increased from 74% to 79% on 1 January 2019 when compared with the position as at 31 December 2018.

52 Events after the Reporting Period

Since January 2020, the coronavirus epidemic ("the COVID-19") has spread across China and other countries, and governments have implemented a series of measures including travel restrictions and quarantines to contain the epidemic, which adversely affected the transport industry where the Group operates. In response to the COVID-19, the Group adjusted the operating strategy, temporarily suspended or made adjustment on the operation of flights on some routes to safeguard the safety and health of passengers and employees, and deployed additional cargo capacity for epidemic prevention materials. The Group will dynamically optimise and adjust its capacity based on the progress of epidemic prevention and control and the recovery of market demand. The development and evolution of the COVID-19 in China and globally still has great uncertainty in the duration and severity, which may further amplify the adverse impact and delay on the recovery of airlines industry and travel demand. Given the uncertainty about the situation, the Group currently cannot estimate the impact to the financial performance and cash flows for the year 2020.

On 31 March 2020, the Board approved the 2019 profit distribution plan to propose cash dividend for 2019 of RMB0.050 per share (before tax), totaling RMB0.819 billion (before tax) based on 16,379,509,203 shares of the Company. The aforesaid profit distribution proposal is subject to approval by the shareholders at the forthcoming 2019 annual general meeting of the Company.

53 Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB million	2018 RMB million
Non-current assets		
Intangible assets	11,636	11,584
Property, plant and equipment	67,169	117,392
Investment properties	189	181
Right-of-use assets	78,050	—
Prepayments for land use rights	—	825
Advanced payments on acquisition of aircraft	16,218	21,942
Investments in subsidiaries	12,444	12,553
Investments in associates	1,732	1,023
Investments in joint ventures	456	356
Equity investments designated at fair value through other comprehensive income	1,160	1,149
Other non-current assets	3,791	2,940
Deferred tax assets	315	—
Derivative financial instruments	27	222
	193,187	170,167
Current assets		
Flight equipment spare parts	31	29
Trade and notes receivables	1,355	1,177
Prepayments and other receivables	22,078	16,884
Derivative financial instruments	43	1
Restricted bank deposits and short-term bank deposits	5	6
Financial asset at fair value through profit or loss	121	96
Cash and cash equivalents	1,107	393
	24,740	18,586
Current liabilities		
Trade and bills payables	4,407	5,889
Contract liabilities	99,476	8,123
Other payables and accruals	20,790	16,309
Current portion of lease liabilities	9,108	—
Current portion of obligations under finance leases	—	6,025
Current portion of borrowings	29,475	37,219
Income tax payable	—	—
Current portion of provision for lease return costs for aircraft and engines	52	126
Derivative financial instruments	13	29
	73,321	73,720
Net current liabilities	(48,581)	(55,136)
Total assets less current liabilities	144,606	115,033

53 Statement of Financial Position of the Company (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	2019 RMB million	2018 RMB million
Non-current liabilities		
Lease liabilities	57,192	—
Obligations under finance leases	—	43,802
Borrowings	24,683	20,011
Provision for lease return costs for aircraft and engines	2,846	777
Contract liabilities	1,031	1,080
Other long-term liabilities	1,072	2,069
Post-retirement benefit obligations	1,897	2,000
Deferred tax liabilities	—	63
Derivative financial instruments	10	—
	88,731	69,802
Net assets	55,875	45,231
Equity		
Capital and reserves		
— Share capital	16,379	14,467
— Reserves (note)	39,496	30,764
Total equity	55,875	45,231

53 Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB million	Capital reserve RMB million	Hedging reserve RMB million	Statutory reserve RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2018	30,066	(720)	91	540	(1,508)	3,128	31,597
Unrealised gains on cash flow hedges (Note 24)	—	—	43	—	—	—	43
Fair value movements in equity instruments designated at fair value through other comprehensive income	—	—	—	—	(249)	—	(249)
Actuarial gains on post-retirement benefit obligations	—	—	—	—	(75)	—	(75)
Transfer from retained profits	—	—	—	—	30	(30)	—
Profit for the year	—	—	—	—	—	186	186
Final 2017 dividend	—	—	—	—	—	(738)	(738)
At 31 December 2018	30,066	(720)	134	540	(1,802)	2,546	30,764
Effect of adoption of IFRS 16	—	—	—	—	—	(718)	(718)
At 1 January 2019 (restated)	30,066	(720)	134	540	(1,802)	1,828	30,046
Unrealised gains on cash flow hedges (Note 24)	—	—	(110)	—	—	—	(110)
Fair value movements in equity instruments designated at fair value through other comprehensive income	—	—	—	—	8	—	8
Actuarial gains on post-retirement benefit obligations	—	—	—	—	37	—	37
Transfer from retained profits	—	—	—	212	—	(212)	—
Profit for the year	—	—	—	—	—	1,985	1,985
Final 2018 dividend	—	—	—	—	—	—	—
Issue of shares	7,530	—	—	—	—	—	7,530
At 31 December 2019	37,596	(720)	24	752	(1,757)	3,601	39,496

Supplementary Financial Information

The following consolidated financial information is extracted from the consolidated financial statements of the Group, prepared under the PRC Accounting Standards.

Significant Differences Between IFRSs and PRC Accounting Standards

The Group's accounting policies adopted in the financial statements prepared by management in accordance with IFRSs differ in certain aspects from those adopted in the financial statements prepared by management in accordance with the PRC Accounting Standards. The aforesaid differences which have a significant effect on the consolidated profit attributable to equity holders of the Company and consolidated net assets attributable to equity holders of the Company are summarised as follows:

	2019 RMB million	2018 RMB million
Consolidated profit attributable to equity holders of the Company		
As stated in accordance with PRC Accounting Standards	3,195	2,709
Impact of IFRSs and other adjustments:		
— Difference in depreciation charges for aircraft and engines due to different depreciation lives (b)	(3)	(11)
As stated in accordance with IFRSs	3,192	2,698

	2019 RMB million	2018 RMB million
Consolidated net assets attributable to equity holders of the Company		
As stated in accordance with the PRC Accounting Standards	66,765	55,765
Impact of IFRSs and other adjustments:		
— Intangible assets (goodwill) (a)	2,242	2,242
— Difference in depreciation charges for aircraft and engines due to different depreciation lives (b)	7	10
— Non-controlling interests (c)	(6)	(6)
— Others	—	(3)
As stated in accordance with IFRSs	69,008	58,008

(a) The recognition and measurement of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired are different under IFRSs and the PRC Accounting Standards, which result in a difference in the intangibles/goodwill recognised arising from the acquisition.

(b) Under the PRC Accounting Standards, on or before 30 June 2001, depreciation of aircraft was calculated to write off their cost on a straight-line basis over their expected useful lives of 10 to 15 years to their residual value of 3%. With effect from 1 July 2001, depreciation of aircraft under the PRC Accounting Standards is calculated to write off their cost on a straight-line basis over their expected useful lives of 15 to 20 years to their residual value of 5% of costs, the change was applied prospectively which resulted in the difference in the carrying amounts under IFRSs and the PRC Accounting Standards. These differences will be reduced progressively in the coming years, and will be fully eliminated when the related assets are fully depreciated or disposed of.

(c) This difference results from the influence of the above items on non-controlling interests.

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