





Li Fenghua, Chairman

李丰华

Dear shareholders,

I am pleased to present the report on the operating results of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2004. On behalf of all the staff of the Group, I would like to extend my sincere thanks to the shareholders for their support of the Group.

In 2004, a vigorous and synchronized economic recovery was underway in many regions and countries around the world; overall, the economic performance was better than the previous year. After experiencing a sectoral overheating, and a macro-economic adjustment made by the State, the national economy of the PRC got well on a gradual track to stability and coordinated development, while maintaining an overall momentum for energetic and speedy growth.

Amid the beneficial macro-economic environment of the PRC, to meet the growing air transport demand and to fight off the intensifying market competition, the Group took a series of measures, including, among others a redeployment of its capacity, to expand its operating scale in the Shanghai as the hub in prompt and orderly manner. As of December 31, 2004, the Group accounted for 41.1% and 31.1% of all the flight traffic at Hongqiao and Pudong airports, respectively. The average daily aircraft utilization rate reached 9.7 hours, an increase of 1.7 hours compared to 2003. On April 1, 2004, the new *Procedures for Collecting Funds for Civil Aviation Infrastructure Construction* (民航基礎建設基金徵收辦法), promulgated by the Ministry of Finance of the PRC, came into effect. The Group opined that the new collection procedures can effectively reduce the amount of its payable contribution.

In terms of passenger traffic, the Company successively launched passenger routes including Shanghai-Kuala Lumpur, Shanghai-London, and Shanghai-Vancouver during the year, to further improve its route network, distinctly enhance the coverage of the Group's routes from the airports in Shanghai, and build up a preliminary system of flights to connect to the Shanghai hub. Meanwhile, the Group streamlined the transfer and connection flight procedures, rationally allocated flights, and also introduced different fares for connection flights to meet the needs of different travelers. All this improved our transit service quality and, as a result, the number of passengers who used our transit services exceeded 300,000 persons/time. New products have been introduced through our detailed market research. Working with partner hotels, the Group launched Eastern Holiday (任我行東方假期) product series. By updating its sales model and building up its marketing application system, the Group effectively increased its income and improved its service quality.



In terms of freight traffic, the Group currently owns a total of six MD11 freighters and has a wet-leased freighter A300F, thus further enhancing its capacity on the more profitable cargo routes operating between the PRC and Europe, the United States, Japan, South Korea and Hong Kong. A new cargo flight on the route Shanghai-Dallas was launched, signifying a significant expansion of the freight service. In the meantime, the Group laid the foundation for the growth of its freight business by setting up its freight management department, establishing a cargo carriage service marketing system to enhance its freight management, incorporating Shanghai Eastern Logistics Co., Ltd. (上海東方遠航物流有限公司), proactively founding a logistic platform for the operation of the Company, and building up China Eastern Airlines as a brand for the flyers' recognition and awareness.

In terms of service, the year 2004 saw the continual provision by the Group of its consistent high quality services under its famous brands of "China Shuttle", "BTBT" (滬港商務) and "Shanghai Beijing Express" (京滬快線). Under the Group's continual effort to carry out the scheme of "Eastern Miles" for frequent flyers, the number of frequent flyers surpassed 4.46 million, with a flight-taking rate of nearly 50%, bringing the influence of the Group's products into full play. The special service hotline "95108" call-centre was established and

came into operation. Further, China Eastern Customer Service Scheme was launched in June 2004 to raise the Group's service standard. The direct sales management was strengthened, and the publicity and promotion work for electronic air tickets were enhanced. Currently, the Group's electronic tickets are available for sale in 22 cities nationwide. Our business is under smooth development.

Compared to 2003, the Group's total traffic volume increased by 49.28% to 4,341 million tonne-kilometers in 2004. Traffic revenues increased by RMB6,338 million to RMB19,786 million, a 47.13% increase compared to 2003.

Compared to 2003, our passenger revenues increased by 49.67% to RMB15,358 million in 2004, accounting for 77.62% of our total revenues in 2004. The volume of passenger traffic was 27,581 million passenger-kilometers, a 53.20% increase compared to 2003.



The passenger traffic volume on our Hong Kong routes was 3,038 million passenger-kilometers in 2004, a 57.12% increase compared to 2003. Compared to 2003, the revenues increased by 34.39% to RMB2,187 million in 2004, accounting for 14.24% of our passenger revenues in 2004. The passenger traffic capacity on our Hong Kong routes increased by 31.55% compared to 2003.

Our international passenger traffic volume was 10,043 million passenger-kilometers in 2004, a 74.14% increase compared to 2003. Compared to 2003, the revenues increased by 60.65% to RMB4,887 million in 2004, accounting for 31.82% of our total passenger revenues in 2004. The passenger capacity on international routes increased by 58.24% compared to 2003. It was mainly due to the market recovery after SARS and the increase in market demand contributed from the recovering global economy in 2004.

Our cargo and mail traffic volume was 1,875 million tonne-kilometers in 2004, a 44.58% increase compared

to 2003. Compared to 2003, the freight revenues increased by 38.94% to RMB4,428 million in 2004, accounting for 21.05% of our total revenues in 2004.

Compared to 2003, our total operating costs increased by 39.65% to RMB19,714 million in 2004.

Expenditure on aviation fuel reached RMB5,430 million, a 78.33% increase compared to 2003. In 2004 the Group consumed a total of 1,454,500 tonnes of aviation fuel, an increase of 42.08% compared to 2003. The main reason was that in 2004 the Group expanded its business and increased its number of flights while international aviation fuel prices went up in 2004. The average domestic and international aviation fuel prices increased by 24.36% and 30.60%, respectively, compared to 2003.

The salaries were RMB1,866 million in 2004, a 28.78% increase compared to 2003, principally a result of expansion of the company and its main operations. These led to an increase in workforce and their average salaries.



The takeoff and landing charges were RMB3,020 million, a 33.95% increase compared to 2003, due largely to the expansion of the Group's business and the increased number of flights.

In summary, the profits attributable to shareholders were RMB514 million for the year ended December 31, 2004.

As of December 31, 2004, the Group had a total of 20,817 employees, most of whom work in the PRC. The employees' compensation is primarily composed of the basic salary and performance-based bonus. There were no labor disputes between the Group and its employees. The Group did not experience a material loss of employees or encounter any difficulties in recruiting new employees.

In January 2001, we joined the employee medical insurance scheme introduced by the Shanghai government. The Group and the employees pay premiums at the approximate rates of 12% and 2% respectively, of the basic salary. We are not liable for any medical costs other than our contributions to the scheme. We believe that the implementation of the scheme will have no serious impact on our operations and finances.

We finance our working capital requirements by the funds generated from operations and short-term bank loans. As of December 31, 2003 and December 31, 2004, we had cash and cash equivalents of RMB1,583 million and RMB2,114 million respectively. In 2003 and 2004, our net cash inflows generated from operating activities were RMB3,163 million and RMB3,266 million respectively, while our net cash outflows used in investment activities were RMB7,305 million and RMB2,433 million respectively. In the past two years, our primary cash requirements were the

funds for the acquisitions and upgrades of aircraft and flight equipment and debt repayments. Our net cash inflow in financing activities in 2003 was RMB3,764 million, largely for the purpose of repayments of long-term loans, finance lease obligations and short-term loans. Our net cash outflow generated from financing activities was RMB312 million in 2004, primarily from bank loans.

We generally operate with a working capital deficit. As of December 31, 2004, our current liabilities exceeded our current assets by RMB12,502 million. For years we have arranged, and we believe that we will be able to continue to arrange, short-term loans through domestic banks in the PRC and foreign-funded banks to meet our working capital requirements. As of December 31, 2003 and December 31, 2004, the total amounts of our short-term loans were RMB4,632 million and RMB6,189 million respectively, and our long-term loans were RMB11,223 million and RMB10,736 million respectively.

We generally finance our purchase of aircraft through operating leases and bank loans secured by our assets. As of December 31, 2004, the total value of our mortgaged assets increased by 33.88%, from RMB9,735 million as of the end of 2003 to RMB13,033 million.

Outlook for 2005

We would like to caution readers of this report that operation of the Group, an air transport enterprise which performs public service functions, is linked closely to political and economic situations, both internationally and locally. As such, the operation of the Group and of the whole sector is, to a substantial extent, subject to the risks associated with geopolitics and the outbreaks of unexpected events. This 2004 annual report of the Group contains (but not limited to) certain forward-looking statements, such as those on the economies of Asia including the PRC, and the aviation market. Such forward-looking statements are subject to many uncertainties and risks.



The Company opines that in 2004, despite the impact of the volatile price fluctuations of crude oil, the majority of the regions and countries around the world were

having a vigorous recovery, and the overall economic situation was positive. The United States, Euro Region and Japan saw a synchronized economic recovery. The developing economies in Asia were under speedy development. Amid macro-economic adjustments and sectoral de-heating, the PRC economy maintained its stable development trend, and will obtaining increasing prominence and importance both in status and functions in the global economic context.

In a global perspective, the regional economic integration is accelerating and forging ahead in global arena; the trade volume is escalating, while bilateral and multi-lateral trade remains a strong driving force behind economic growth. After its accession to the WTO, the

PRC sees its aggregate foreign import and export trade volume increase briskly and surpasses its GDP growth, and the PRC is now an actual trading power and no longer a potential one. The sound economy of the PRC and the significant increase of its import has brought forth business opportunities to many countries. With the furtherance of the processes associated with PRC's entry to the WTO, the PRC will, to an even greater extent and depth, participate in economic technological co-opetition in international field

and will at the same time contribute to the demand and speedy growth of the domestic aviation market.



Aviation Administration of China (“Aviation Administration”) and Shanghai Municipal Government for developing Shanghai into an international first-class aviation hub. The plan has a gradually increasing effect on both convergence and generation of the passenger and logistics volumes in the region. To utilize the favorable opportunities from strong market demand, the Group is going to further acquire aircraft

Currently, the PRC is at a stage of increasing consumption. With its large territory, the PRC possesses rich resources for tourism development, thus bringing forth a significant increase in air travelers’ demand for consumption goods, which in turn means a huge potential for air transport development. By timely adjusting and allocating its transport capacity, and by increasing its transport turnover in all aspects, the Group is going to grasp the business opportunities created by the increasing demand and by holidays and travel seasons, so as to boost its operating revenues.

Shanghai, where the Group’s headquarters is located, is now firmly established with increasing importance as the centre of the PRC economy, finance and aviation. Cities in the Yangtze River Delta, with Shanghai as their leading core, have recorded the fastest economic development rate in the PRC. Preliminary results have been produced from the cooperation plan between Civil

in 2005, including five Airbus A320, two Airbus A321, three Boeing B737-800 and three ERJ145. The Group believes that it will continue to benefit from the increasing regional transport market demand. In addition, the pace for implementing the Open Skies Agreement is accelerating. The PRC Government plans to gradually open the aviation market in Shanghai in phases. This will bring about an even denser passenger and logistics volumes, and the local air transport market will see keen competition. While keeping a close eye on the opening of aviation right, the Group is dedicated to increasing its market share in the Shanghai region by adjusting and optimizing our route network, providing products and services to customers’ satisfaction, increasing further our investment in our operating base, taking the initiative to adopt various effective measures, and capturing opportunities and facing up to challenges proactively.

In light of the market environment and our current operations, we plan to implement the following strategies in order to enhance our competitiveness in 2005:

1. To strengthen safety management and enhance flight safety

In 2005, the Company will accomplish a solid job of security management. To comply with the Airline Operational Control System ("AOC"), the Company will raise the punctuality rate of flights and strengthen its flight services of irregularity. To meet the requirements of the IATA Operational Safety Audit, the Group will unremittingly improve its security management system, step up its surveillance system, and improve an examination of self-monitoring, examination and verification.

2. To improve our service quality, perfect our network and enhance the corporate image of China Eastern Airlines

In 2005, the Company will first invigorate the functions of service quality control department, continue to strengthen its existing products, and promote the brand image of its services. The Group will bolster and refine its 10 service projects such as "China Shuttle" and "Dedicated Services". It will also further promote its "BTBT" (滬港商務) and continue to carry out "Shanghai Beijing Express" (京滬快線) so as to gain a brand advantage for and heighten the competitiveness of its routes. Great importance will be attached to dealing with any irregularity in flight services, and prompt data communication with passengers.



Efforts will be made to facilitate the building up of Shanghai as an aviation hub, and to reinforce the strategic planning of the Company's route network. The transport capacity deployed to East China especially to Shanghai will be added so as to ensure the Company's advantageous position in the strategic competition in building up Shanghai as the aviation hub. By approaching various airport air traffic control departments for cooperation, the Company will make joint efforts with them to increase the flight regularity rate. The Group will make use of the pivotal advantages of the Shanghai airports, and hence optimize its transit network and continue its transit and connection flight services. This can achieve a rational matching of the Company's route network and its resources.

3. Innovative marketing; stable improvement of profitability

The Company will step up its income management and enhance the revenue quality of its passenger transport business. In income management, new scientific management concepts will be introduced. The Company will adopt an automatic system clearing any unreliable ticket-booking and enhance the management of ticket-booking. Marketing ideas will be updated with emphasis on the revenue of a route per seat/kilometer, so as to ensure the maximization of overall revenue.

The Company also aims: to fully reverage our sales information platform; to continue developing value-

added sales business; to use the call centre as a platform for developing its strategic cooperation with non-aviation partners with a view to launching personalized and characteristic products; to enhance the quality of services to frequent flyers with a view to scooping out high-end customers; to develop the business of Eastern Holidays, to promptly promote our individual travel products to the major tourist cities in the PRC; to do our best to promote the e-commerce system; to gradually improve our electronic ticketing system; and to extend the electronic ticketing system covering all domestic routes in the PRC and, at the same time, to actively extend the system covering international routes. And the Company will enhance its strategic cooperation, heighten the overall revenue of its routes and continue to consolidate as well as developing its code-sharing arrangement and joint operation. It will further extend our route network, increase the frequency of its flights, and lay the foundation for maximization of the connection and transit flights.

4. To strengthen management and expand freight business

In 2005, the Group will continue its strategy for developing cargo transport business and promoting the development of aviation logistics. The Group will fully utilize the cargo transport resources in Yangtze River Delta, use the cargo holds of passenger jets and cargo planes in combination, to increase its investment and involvement in cargo onward flights.



This can build up a highly effective logistic chain for cargo carriage. The Group will also increase the sales of cargo space in its outer stations and to expand its SPA business cooperation. Based on Shanghai Eastern Logistics Co., Ltd. (上海東方遠航物流有限公司), a newly-established subsidiary, the Group will build up a cargo transshipment network in Shanghai, with a view to establishing a logistic network for Yangtze River Delta.

5. To enhance financial management and strictly control expenses

2005 will see relatively uncertain aircraft fuel prices while relatively tighter credit crunch, both

domestically and overseas, will add to the financing costs and difficulties. The Group plans to take the following measures to control its costs to the largest extent:

To fully control its budget management; to continue a departmental responsibility system for all costs and expenses; to tighten up the monitoring of various controllable expenses, and to carry out monitoring and management of cash flow budget;

To step up the project consulting and assessment work relating to the Sarbanes-Oxley Act of 2002; to strengthen internal audit; to perfect internal financial control; and to enhance protection against financial risks; and to ensure the security of funds;

To reinforce the management of risks associated with funds; to promptly track any changes in exchange rates and any fluctuations of aircraft fuel; and to reduce the risks with the application of financial derivatives;

To beef up the management of flight equipment in a comprehensively manner; to dispose of idle flight equipment rationally to lower the amount of tied-up funds; and to lower the cost for repair;

To regulate its own investments; to place emphasis on the control and management of investments; to define the property ownership clearly; and to ensure better return on the Company's investment.

6. To promote integration and smoothly complete restructure

In order to smoothly fulfill the strategic deployment of the State Council for the joint restructuring of the aviation industry, and the integration of the industry as disclosed in the announcement dated October 11, 2002 issued by the Company, the Company is working on the acquisition of the airline operating assets of CEA Northwest and China Eastern Air Yunnan Company ("CEA Yunnan"), companies under China Eastern Air Holding Company ("CEA Holding"), one of the controlling shareholders of the Company. This move aims to increase the Group's core competitiveness. The Group will devise an optimum acquisition plan pursuant to legal procedures, and also speed up the proper centralization and integration of its security

management, fleet expansion, marketing, services standards, and aviation equipment deployment. We believe that after the reorganization, the Group of an enlarged scale will have an integration and optimization of market shares, routes networks, fleet scales and human resources. These are conducive to the Company when building up an even more perfect both the domestic and international route network, and will contribute to the expansion of its domestic market share.

If the relevant transaction(s) takes place, the Company will ensure that the applicable regulatory requirements will be complied with.

On behalf of the Board of Directors, I would like to express my gratitude to all of the shareholders.

Li Fenghua

Chairman

Shanghai, China

April 12, 2005