



The board of directors of the Company (the "Board") is pleased to present the audited financial report of the Company and its subsidiaries (the "Group") for the year ended December 31, 2004.

## Group Activities and Results

The Company is one of the three largest air carriers in the People's Republic of China (the "PRC") based on tonne-kilometres and number of passengers carried in 2004 and is the primary air carrier serving Shanghai,

the largest economic, trading and financial centre of the PRC. The results of the Group for the year ended December 31, 2004 and the financial position of the Company and the Group as at that date, prepared in accordance with International Financial Reporting Standards ("IFRS") and PRC Accounting Regulations, are set out in the financial statements.

Details of the Company's principal subsidiaries are set out in note 15 to the financial statements prepared in accordance with IFRS.

The geographical analysis of the Group's revenue from principal business is as follows:

	PRC Accounting Regulations (RMB'000)	IFRS (RMB'000)
Domestic	8,582,109	8,582,547
Hong Kong Special Administrative Region ("Hong Kong")	2,812,781	2,778,818
International	8,498,254	8,424,609
<b>Total</b>	<b>19,893,144</b>	<b>19,785,974</b>

## Dividends

As of December 31, 2004, based on the financial statements prepared in accordance with PRC Accounting Standards, the Company's accumulative profit distributable to shareholders was RMB443,488,200. Having considered the Company's cash flow position in 2005, the Board of Directors recommended distribution of the Company's accumulative undistributed profits to all shareholders in the form of cash dividends of RMB0.02 per share (including tax) based on an aggregate of 4,866,950,000 shares of the Company as at December 31, 2004. Holders of H shares and ADSs will receive an equivalent amount of

such dividend distribution (converted into their respective currencies) based on the average foreign exchange rate within the five business days subsequent to the 2004 Annual General Meeting as published by the People's Bank of China, representing a total of cash dividend payment of RMB97,339,000 (excluding the expenses for the distribution of the above dividend). The balance of retained profits will be carried forward to next year. The Company will not convert funds from the common reserve to increase its share capital during this period. The Board of Directors also decided that the above distribution proposal will be submitted to the 2004 Annual General Meeting for approval by its shareholders.

## Share Capital Structure

As at December 31, 2004, the share capital structure of the Company in 2004 remained unchanged as follows:

	At the beginning of the year (10,000 shares)	Approximate percentage in total issued share capital (%)	Increase/ (Decrease) in shareholding during the year (10,000 shares)	At the end of the year (10,000 shares)	Approximate percentage in total issued share capital (%)
1. Unlisted shares					
(a) A shares (unlisted State-owned legal person shares)	300,000	61.64	0	300,000	61.64
2. Listed shares					
(a) H shares	156,695	32.20	0	156,695	32.20
(b) A shares	30,000	6.16	0	30,000	6.16
3. Total number of shares	486,695	100	0	486,695	100

## Number of Shareholders

As at December 31, 2004, the total number of registered shareholders of the Company was 100,915, of which 98,699 are holders of A shares (including unlisted State-owned legal person shares and listed A shares), and 2,216 are holders of H shares.

## Substantial Shareholders

So far as the Directors are aware, each of the following persons, not being a Director, chief executive, Supervisor or member of the Company's senior management, had, as at December 31, 2004, an interest

and / or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or was otherwise, as at December 31, 2004, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, as at December 31, 2004, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company:

Name of shareholder	Nature of shares held	Number of shares held	Interest As at December 31, 2004			Short position
			Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued A shares	Approximate percentage of shareholding in the Company's total issued H shares	
China Eastern Air Holding Company	A shares (unlisted State-owned legal person shares)	3,000,000,000	61.64%	90.91%	–	–
HKSCC Nominees Limited (Note)	H shares	1,483,815,163	30.49%	–	94.69%	–

## Note:

Based on the information available to the Directors as at December 31, 2004 (including such information as was available on the website of the Stock Exchange) and so far as the Directors are aware, as at December 31, 2004:

Among the 1,483,815,163 H shares held by HKSCC Nominees Limited, J.P. Morgan Chase & Co. had an interest in an aggregate of 92,424,700 H shares of the Company (representing approximately 5.90% of its then total issued H shares). Out of the 92,424,700 H shares, J.P. Morgan Chase & Co. had an interest in a lending pool comprising 2,098,000 H shares of the Company (representing approximately 0.13% of its then total issued H shares). According to the information as disclosed in the website of the Stock Exchange and so far as the Directors are aware, J.P. Morgan Chase & Co. held its interest in the Company in the manner as follows:

- (a) 2,098,000 H shares in a lending pool, representing approximately 0.13% of the Company's then total issued H shares, were held by JPMorgan Chase Bank, which was 100% held by J.P. Morgan Chase & Co.;
- (b) 792,700 H shares, representing approximately 0.05% of the Company's then total issued H shares, were held in the capacity as beneficial owner by J.P. Morgan Whitefriars Inc., which was ultimately 100% held by J.P. Morgan Chase & Co.; and
- (c) 89,534,000 H shares, representing approximately 5.71% of the Company's then total issued H shares, were held in the capacity as investment manager by JF Asset Management Limited. JF Asset Management Limited was approximately 99.99% held by J.P. Morgan Fleming Asset Management (Asia) Inc., which, in turn, was ultimately 100% held by J.P. Morgan Chase & Co..

Save as disclosed above and so far as the Directors are aware, as at December 31, 2004, no other person (other than the Directors, chief executives, Supervisors or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

According to the relevant disclosure requirements laid down by the China Securities Regulatory Commission, as at the end of the reporting period, the 10 largest registered shareholders and the 10 largest registered listed stock shareholders on the register of members and their respective shareholdings are as follows:

### The 10 largest registered shareholders of the Company and their respective shareholdings

	Name of shareholders	Increase/ (Decrease) in shareholding in the year	Shareholding at the end of year	Percentage (%)	Type of shares	Charged or locked-up shares	Nature of shares held
1.	CHINA EASTERN AIR HOLDING COMPANY	0	3,000,000,000	61.6402	unlisted	0	A shares (unlisted State-owned legal person shares)
2.	HKSCC NOMINEES LIMITED	14,981,800	1,483,815,163	30.4875	listed	Unknown	H shares
3.	DE-SHENG SMALL CAP (德盛小盤)	11,282,290	11,282,290	0.2318	listed	Unknown	A shares
4.	TONG QIAN FUND (通乾基金)	6,757,766	6,757,766	0.1388	listed	Unknown	A shares
5.	PU FENG FUND (普豐基金)	6,334,069	6,334,069	0.1301	listed	Unknown	A shares
6.	AN XIN FUND (安信基金)	4,099,949	4,099,949	0.0842	listed	Unknown	A shares
7.	HSBC NOMINEES (HONGKONG) LIMITED {A/C BR-9}	756,000	3,756,000	0.0768	listed	Unknown	H shares
8.	JIN TAI FUND (金泰基金)	3,179,824	3,179,824	0.0653	listed	Unknown	A shares
9.	CHINA INTERNATIONAL FUND (上投摩根)	3,077,232	3,077,232	0.0632	listed	Unknown	A shares
10.	SUZHOU SECURITIES (蘇州證券)	2,739,620	2,739,620	0.0563	listed	Unknown	A shares

Description of any related party or concert party relationship among the 10 largest shareholders:

The Company is not aware of any related party or concert party relationship among the above shareholders.

## The 10 largest registered listed stock shareholders of the Company and their respective shareholdings

Name of shareholders	Shareholding of listed stocks at the end of year	Nature of shares held
HKSCC NOMINEES LIMITED	1,483,815,163	H shares
DE-SHENG SMALL CAP (德盛小盤)	11,282,290	A shares
TONG QIAN FUND (通乾基金)	6,757,766	A shares
PU FENG FUND (普豐基金)	6,334,069	A shares
AN XIN FUND (安信基金)	4,099,949	A shares
HSBC NOMINEES (HONGKONG) LIMITED {A/C BR-9}	3,756,000	H shares
JINTAI FUND (金泰基金)	3,179,824	A shares
CHINA INTERNATIONAL FUND (上投摩根)	3,077,232	A shares
SUZHOU SECURITIES (蘇州證券)	2,739,620	A shares
HANXING FUND (漢興基金)	2,409,800	A shares

Description of any related party or concert party relationship among the 10 largest listed stock shareholders:  
The Company is not aware of any related party or concert party relationship among the above listed stock shareholders.

### Controlling Shareholder

There is no change in the Company's controlling shareholder in the year.

China Eastern Air Holding Company ("CEA Holding") is the parent company of the Company and its registered capital amounts to RMB2,558,441,000. Mr. Li Fenghua is the legal representative of CEA Holding. CEA Holding manages all State-owned assets and State-owned equity of its group and its investment enterprises, all of which assets and equity are formed by State investment. As at December 31, 2004, the shares of the Company held by CEA Holding were not pledged.

### Purchase, Sale or Redemption of Securities

During the year ended December 31, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its securities.

### Compliance with the Code of Best Practice

The Company has throughout the year ended December 31, 2004 complied with the then applicable and effective requirements contained in "Code of Best Practice" as set out in Appendix 14 to the pre-existing Listing Rules.

## Summary of Significant Differences between the Corporate Governance Practices of China Eastern Airlines Corporation Limited and the Corporate Governance Practices Required to be Followed by U.S. Companies under the New York Stock Exchange's Listing Standards

As a company incorporated in the People's Republic of China (the "PRC") and listed on the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited (the "HKSE") and the New York Stock Exchange (the "NYSE"), China Eastern Airlines Corporation Limited (the "Company") is subject to applicable PRC laws and regulations, including the PRC Company Law, the PRC Securities Law, Corporate Governance Standards for Listed Companies and Guidance Opinions regarding the Establishment of Independent Director System in Listed Companies (the "Independent Director Guidance"), Hong Kong laws and regulations, including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), the Hong Kong Companies Ordinance and the Hong Kong Securities and Futures Ordinance, as well as applicable U.S. Federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002. The Company is also subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. The Company is

not required to comply with all of the corporate governance listing standards of the NYSE.

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors. As a company listed in the PRC, the Company is subject to the requirement under the Independent Director Guidance that at least one-third of its board of directors be independent as determined thereunder. As a company listed in Hong Kong, the Company is also subject to the requirement under the Hong Kong Listing Rules that at least three members of its board of directors be independent as determined under the Hong Kong Listing Rules, and at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise. The Company currently has five independent directors out of a total of eleven directors. The standards for establishing independence set forth under either the Independent Director Guidance or the Hong Kong Listing Rules differ from those set forth in the NYSE Listed Company Manual.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. The Company is not required, under either the applicable PRC law or the applicable Hong Kong law, to hold such executive sessions.

Section 303A.04 of the NYSE Listed Company Manual provides that listed companies must have a nominating/corporate governance committee composed entirely of independent directors. Currently, the Company does not have a nominating/corporate governance committee. The Company can choose to have but is not required to have such a committee under either applicable PRC law or Hong Kong law. Section 303A.04 of the NYSE Listed Company Manual also provides that the nominating/corporate governance committee of a listed company must have a written charter that address the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. The board of directors of the Company is directly in charge of developing the Company's corporate governance guidelines.

Section 303A.05 of the NYSE Listed Company Manual provides that listed companies must have a

compensation committee composed entirely of independent directors. The compensation committee of the Company is composed of three independent directors and one member of the supervisory committee.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. As required under the Sarbanes-Oxley Act of 2002, the Company has adopted a code of ethics that is applicable to the Company's directors, supervisors, president, chief financial officer and other senior managers.

### Pre-emptive Rights

Under the articles of association of the Company and the PRC laws, no pre-emptive rights exist which require the Company to offer new shares to existing shareholders on a pro rata basis.

### Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended December 31, 2004 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08 of the Listing Rules.



## Directors, Supervisors and Senior Management

Names, relevant information of and shares held by the Directors, the Supervisors and members of senior management of the Company during 2004 and as at the date of this report are as follows:

Name	Position	Age	Number of listed A shares of the Company held - personal interest	Capacity in which the A shares were held	Effective date and expiry date of appointment
Li Fenghua	Chairman of the Board of Directors	55	0	–	June 2004- June 2007
Ye Yigan	Director	62	0	–	June 2004- June 2007
Cao Jianxiong	Director	46	2,800 (Note 1)	Beneficial Owner	June 2004- June 2007
Wan Mingwu	Director, Vice President	58	0	–	June 2004- June 2007
Zhong Xiong	Director	59	2,800 (Note 1)	Beneficial Owner	June 2004- June 2007
Luo Zhuping	Director, Secretary of the Board	52	2,800 (Note 1)	Beneficial Owner	June 2004- June 2007
Hu Honggao	Independent Non-executive Director	51	0	–	June 2004- June 2007
Peter Lok	Independent Non-executive Director	68	0	–	June 2004- June 2007
Wu Baiwang	Independent Non-executive Director	62	0	–	June 2004- June 2007
Zhou Ruijin	Independent Non-executive Director	66	0	–	June 2004- June 2007

Name	Position	Age	Number of listed A shares Company of the held - personal interest	Capacity in which the A shares were held	Effective date and expiry date of appointment
Xie Rong	Independent Non-executive Director	53	0	–	June 2004- June 2007
Li Wenxin	Chairman of the Supervisory Committee	56	0	–	June 2004- June 2007
Ba Shengji	Supervisor	46	2,800 (Note 1)	Beneficial Owner	June 2004- June 2007
Yang Xingen	Supervisor	52	0	–	June 2004- June 2007
Yang Jie	Supervisor	35	0	–	June 2004- June 2007
Liu Jiashun	Supervisor	48	0	–	June 2004- June 2007
Luo Chaogeng	President	55	0	–	September 2004- June 2007
Wu Yulin	Vice President	56	2,800 (Note 1)	Beneficial Owner	June 2004- April 2005
Wu Jiuhong	Vice President	53	0	–	June 2004- June 2007
Yang Xu	Vice President	44	1,000 (Note 2)	Beneficial Owner	June 2004- June 2007
Zhou Liguo	Vice President	56	0	–	June 2004- June 2007
Zhang Jianzhong	Vice President	50	0	–	June 2004- June 2007
Tong Guozhao	Vice President	46	0	–	April 2005- June 2007
Luo Weide	Chief Financial Officer	49	0	–	June 2004- June 2007

Note 1: representing approximately 0.0009333% of the Company's total issued listed A shares as at December 31, 2004

Note 2: representing approximately 0.0003333% of the Company's total issued listed A shares as at December 31, 2004

As at the date of this report, brief biographical details in respect of each of the Directors, Supervisors and senior management officers of the Company are as follows:

Mr. Li Fenghua is the incumbent chairman of the Board of Directors, president and deputy party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1968 and was deputy head, and subsequently became head, of the 26th Fleet of the Civil Aviation Administration of China from 1987 to 1992. From 1992 to 1996, Mr. Li served as vice-president, and then became president, of the Hubei branch of China Southern Airlines (Group). Since 1996, he became vice-president of China Southern Airlines Company Limited and vice-president of China Southern Airlines (Group). In 2000, Mr. Li became party secretary and vice-president of China Southern Airlines Company Limited. From October 2002 to September 2004, he served as the President of the China Eastern Airlines Corporation Limited and vice-president of China Eastern Air Holding Company. In September 2004, he became president and deputy party secretary of CEA Holding. Mr. Li graduated from the China Civil Aviation Senior Aviation School and holds the title of First Class Pilot.

Mr. Ye Yigan is currently a Director. Mr. Ye joined the civil aviation industry in 1965. From 1983, he served as deputy chief engineer of the aircraft repair factory of the CAAC Shanghai Bureau. From 1985, he served as head of the aircraft repair factory of the CAAC Shanghai Bureau. In December 1987 he became deputy head of the CAAC East China Bureau. From 1992, he served as president and deputy party secretary of China Aviation Supplies Corp. From June 1996, he served as head and party secretary of the CAAC East China Bureau. From April 2001 to September 2002, he served as president and party secretary of EA Group. From

June 2001 he became chairman of the Board of Directors. From October 2002 to September 2004, he was president and deputy party secretary of CEA Holding. Mr. Ye graduated from the China Civil Aviation Institute in Tianjin, with a major in aircraft instrument maintenance. He holds the title of Senior Engineer.

Mr. Cao Jianxiong is currently a Director. Mr. Cao joined the civil aviation industry in 1982. From 1992, he served as president of Shanghai Eastern Airlines Development Company and in 1994 he became president of Eastern Airlines Futures Brokerage Company. In early 1996 he served as assistant president of the Company. From 1997, he served as vice president and chief financial officer of the Company. Since December 1999, he has served as vice president of EA Group. Since October 2002, he served as vice president of CEA Holding, and he also was the party secretary of China Eastern Air Northwest Company from December 2002 to September 2004. Mr. Cao graduated from the Civil Aviation Management Institute with a major in labour economics. Mr. Cao also received a Master's degree in global economics from Eastern China Normal University's Department of International Finance. Mr. Cao holds the title of Economist.

Mr. Wan Mingwu is currently a Director as well as the Company's party secretary and vice president. Mr. Wan joined the civil aviation industry in 1968. From 1983 to 1990 he was deputy section chief and section chief of the cadre section of the political department of the CAAC Shenyang Bureau. From 1990 to 1992 he was section chief of the personnel section of China Northern Airlines. From 1992 to 1995 he was deputy party secretary of China Northern Airlines and from 1995 to 2000 he was party secretary of China Northern Airlines. Since December 2000 he has been party secretary and vice

president of the Company. Mr. Wan graduated from Civil Aviation Mechanics Vocational School. Mr. Wan is a college graduate and holds the title of Senior Political Work Instructor.

Mr. Zhong Xiong is currently a Director of the Company. Mr. Zhong joined the civil aviation industry in 1970. From 1986 to 1988, he was vice president of Transportation Services Company of the CAAC Shanghai Bureau and was president of the sales and transportation department of China Eastern Airlines from 1988 to 1992. From 1992 to April 1995, he was vice president of China Eastern Airlines. From May 1995 to April 2002, Mr. Zhong has been vice president of the Company, and has become the Chairman of the workers' union of CEA Holding since April 2002. He graduated in 1970 from the English Department of Liaoning Teacher's College and holds the title of Economist.

Mr. Luo Zhuping is a Director of the Company, the secretary of the Board of Directors and the head of the secretariat of the Board of Directors. Mr. Luo joined CEA in 1988. He was deputy chief and then chief of the enterprise management department of China Eastern Airlines from 1992 to 1997. He was deputy head of the share system office from 1993 to 1996. In 1997, he became the secretary of the Board of Directors and the head of the secretariat of the Board of Directors. He became a Director of the Company in June 2004. Mr. Luo graduated from the Faculty of Philosophy and the Faculty of Law of Anhui University in 1979 and 1985, respectively. In 1994, Mr. Luo received a Master's degree from the Economics Department of Eastern China Normal University, majoring in global economics. In 1998, he participated in the training programme for senior managers of large state-owned enterprises organised in the U.S.A. by the State Economic and Trade Commission and Morgan Stanley.

Mr. Hu Honggao is currently an independent non-executive Director of the Company. He is the vice-dean and professor of law at Fu Dan University School of Law as well as the head of the Civil and Commercial Law Research Centre of Fu Dan University, supervising doctoral students majoring in civil and commercial law at Fu Dan University. He is also a senior lawyer at the Shanghai Shen Yang Law Office. Mr. Hu is a managing director of China Commercial Law Research Society, a managing director of China Economic Law Research Society (中國經濟法研究會常務理事), a member of the Legislative Consultation Committee of the Shanghai Municipal Government, a member of the Legislative Profession Consultation Committee of the Shanghai Standing Committee of the People's Congress (上海市人大常委會立法專家諮詢委員會委員), vice-chairman of the Shanghai Economic Law Research Society and an arbitrator of the Shanghai Arbitration Committee.

Mr. Peter Lok is currently an independent non-executive Director of the Company. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England from 1968 to 1973. In 1982, he became assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became deputy director in 1988, and subsequently became director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996 and has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

Mr. Wu Baiwang is currently an independent non-executive Director of the Company. Mr. Wu joined the civil aviation industry in 1959 and was deputy fleet leader and subsequently became fleet leader of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From 1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. From September 1995 to 1998, he became president of China General Aviation Corporation. He was the party secretary and vice-president of Guangzhou Baiyun International Airport Group Company and the Chairman of the Board of Directors of Guangzhou Baiyun International Airport Company Limited from 1998 to September 2003. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

Mr. Zhou Ruijin is currently an independent non-executive director of the Company. Mr. Zhou was deputy editor-in-chief and the East China regional director of the People's Daily. From 1988 to 1993 Mr. Zhou was party secretary and deputy editor-in-chief of the Liberation Daily. From April 1993 to 1996 he was deputy editor-in-chief of the People's Daily and from 1996 to 2000 he was deputy editor-in-chief and the East China regional director of the People's Daily. After retired, he became Vice-chairman of the China Productivity Council and Chairman of the Shanghai Productivity Council. Mr. Zhou graduated from the journalism department of Fudan University in 1962.

Mr. Xie Rong is currently an independent director of the Company and a certified accountant in the People's Republic of China. Mr. Xie is the deputy head of Shanghai National Accounting Institute. He taught at the faculty of accounting of Shanghai University of

Finance and Economics from December, 1985 to March, 1997, and had been an assistant professor, a professor, a doctorate-tutor and the deputy dean of the faculty. Mr. Xie was a partner of KPMG Huazhen from December, 1997 to October, 2002, and has, since October, 2002, been the deputy head of Shanghai National Accounting Institute. Mr. Xie graduated from Shanghai University of Finance and Economics and has a doctorate degree in Economics.

Mr. Li Wenxin is currently chairman of the Company's supervisory committee. Mr. Li joined the civil aviation industry in 1970. From 1992 to 1995 he was secretary of the disciplinary committee of China General Aviation Company. From 1995 to 1996 he was deputy party secretary of China General Aviation Corporation. From 1996 to 1998 he was deputy president of China General Aviation Corporation and from February 1998 to June 2002, he assumed the post of party secretary and executive deputy president of the Shanxi branch of the Company. From June 2000 to September 2002, he served as deputy party secretary and secretary of the disciplinary committee of EA Group. Since October 2002, he served as party secretary and vice president of CEA Holding. He has been the Chairman of the Supervisory Committee of China Eastern Airlines Corporation Limited since June 2000. Mr. Li received university education and is a qualified Senior Political Work Instructor.

Mr. Ba Shengji is currently a Supervisor. Mr. Ba joined the civil aviation industry in 1978. From 1980, Mr. Ba was an accountant at the Department of Finance of the CAAC Shanghai Bureau. From 1988, he served as the section head of the Department of Finance of China Eastern Airlines. In 1993, Mr. Ba became the deputy head of the Department of Finance of China Eastern

Airlines. In March 1997, Mr. Ba became the chief officer of the auditing office of the Company. From December 1997 to September 2002, he served as the head of EA Group's auditing department. Since October 2002, he became the head of CEA Holding's auditing department. Since January 2003, he concurrently served as chief of CEA Holding's disciplinary committee's administrative office. Mr. Ba received university education and is a qualified auditor.

Mr. Yang Xingen is currently a Supervisor. Mr. Yang was the deputy political committee member of the 1st flying battalion and political committee member of the 2nd battalion of 105th Regiment, 35th Division from July 1980 to July 1986. From July 1986 to October 1997, he was the party branch secretary and manager of China Eastern Airlines Advertisement Service Company respectively. From October 1997 to April 2000, he was the party deputy secretary, secretary for the disciplinary committee and political director of the Shanghai flying squadron of China Eastern Airlines. From April 2000 to August 2002, he was the deputy secretary for the disciplinary committee cum director of the office for discipline committee and director of the supervision office. From August 2002 to now, he has been the deputy secretary for the disciplinary committee of China Eastern Airlines. Mr. Yang has been educated to the tertiary level. He was graduated from the faculty of mechanics of the Second Aviation Mechanics School of the air force.

Ms. Yang Jie is currently a Supervisor. Ms. Yang joined the civil aviation industry in 1992. From 1996 to 1998 she was electronic technology supervisor of the technology office and Communist Youth League secretary of the overhaul department at the aircraft maintenance base of the Company. From 1998 to

September 2000 she was Communist Youth League deputy secretary of the aircraft maintenance base of the Company. She was the deputy secretary of the Company's Communist Youth League from September 2000 to July 2002, and the secretary of the Company's Communist Youth League from August 2002 to January 2003. Since January 2003, she has been the secretary of the Communist Youth League of China Eastern Air Holding Company, as well as the secretary of the Communist Youth League of China Eastern Airlines Corporation Limited. Ms. Yang graduated with a major in aviation electronics from the China Civil Aviation Academy and a major in Business Administration from Sunny Management Academy (旭日管理學院工商管理) at Donghua University and she received a master degree in Business Administration. She is also a qualified engineer.

Mr. Liu Jiashun is currently a Supervisor. From 1993 to 1999 Mr. Liu was party secretary, deputy president and secretary of the disciplinary committee secretary of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. From 1997 to 1999 he was also in charge of fuel supply engineering at Haikou's Meilan Airport and served as director of Meilan Airport Co., Ltd. and vice chairman of the board and president of Meilan Industrial Co., Ltd. From 1999 to 2000 he was deputy party secretary of China Aviation Fuel East China Company and he is currently deputy party secretary and secretary of the disciplinary committee of the East China branch of China Aviation Fuel Company. Mr. Liu is a former graduate student and has qualifications as a political work instructor.

Mr. Luo Chaogeng is current the President and deputy party secretary of the Company. Mr. Luo joined the civil

aviation industry in 1970. Mr. Luo was a flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration Bureau from August 1970 to August 1972. From August 1972 to March 1989, he was the flight mechanic of the 8th Civil Aviation Flight Team. From March 1989 to August 1994, he was the deputy commissar, commissar and party secretary of the Xian Flight Team of China Northwest Airlines. From August 1994 to October 1997, he was the party secretary of the aircraft maintenance plant of China Northwest Airlines. From October 1997 to March 1997, he was the party secretary and deputy general manager of the aircraft maintenance base of China Northwest Airlines. From March 1997 to December 2000, he was the deputy director of the Civil Aviation Administration Bureau of China Northwest Airlines. From December 2000 to November 2001, Mr. Luo was the general manager of Yunnan Airlines and the director and deputy party secretary of Civil Aviation Administration Bureau of Yunan. From November 2001 to September 2001, he was the general manager and deputy party secretary of Yunnan Airlines. From September 2002 to September 2004, he has also been serving concurrently as the general manager of Yunan Airlines. From September 2004 to the present, he has been the party constitution member and vice president of China Airlines Group Company, President and deputy party secretary of China Airlines Corporation Limited. From 1998 to June 2001, Mr. Luo has been studying the postgraduate course for incumbent leading cadres in professional economics and management at the Central Party School of Shaanxi. Mr. Luo has obtained first class competency in flight mechanics.

Mr. Wu Yulin is a vice president of the Company. Mr. Wu joined the civil aviation industry in 1966. From 1975 to 1985, he was the deputy head, and from 1985 to

1988, the head, of the 5th Fleet of the CAAC. In 1988, Mr. Wu became the head of China Eastern Airlines' Shanghai Fleet. From 1989 to 1994, Mr. Wu was the deputy chief, and from 1994 to 1995, the chief, of the Aviation Skills and Management Department of China Eastern Airlines. He was the director of China Eastern Airlines' Safety Supervision Department from 1995 to 1997, deputy chief pilot and head of the Safety Supervision Department of the Company from 1997 to 1998 and president and party secretary of the Hebei Branch office of the Company from 1998 to 1999. Mr. Wu was a vice president of the Company from December 1999 to April 2005. Mr. Wu graduated from Chinese Civil Aviation School and holds the title of First Class Pilot.

Mr. Wu Jiahong is a vice president of the Company. Mr. Wu joined the civil aviation industry in 1971. From 1968 to 1971 he served with the 60th division under the 20th army. From 1971 to 1973 he studied aviation machinery at the Civil Aviation College. From 1973 to 1981 he was with the 18th Fleet of the CAAC's 2nd General Fleet. From 1985 to 1988 he served as Communist Youth League secretary and deputy head of the political department of the CAAC's Jiangxi Bureau. From 1988 to 1995 he concurrently served as deputy party secretary and disciplinary committee secretary of the Cabin Service Department of China Eastern Airlines. From 1995 to 1997 he served as head of the Company's publicity department. From 1997 to 2002, he served as party secretary and executive vice president of the Company's Jiangxi branch. Since April 2002 he has been vice president of the Company. He also became the party secretary of China Eastern Air Northwest Company since September 2004. Mr. Wu has completed postgraduate studies and is a qualified senior political work instructor.

Mr. Yang Xu is a vice president of the Company. Mr. Yang joined the civil aviation industry in 1982. Mr. Yang was president and party secretary of the overhaul department at the aircraft maintenance base of China Eastern Airlines from 1993 to 1997, the vice president of the aircraft maintenance base of the Company from 1997 to 1998, and president and deputy party secretary of the aircraft maintenance base of the Company from 1998 to 1999. Mr. Yang has been the chief engineer of the Company since December 1999. Since April 2002, he served as vice president of the Company and general manager of the Company's aircraft engineering department. Mr. Yang graduated from the Nanjing University of Aeronautics and Astronautics with a major in aircraft manufacture and holds the title of Senior Engineer.

Mr. Zhou Liguo is currently a vice president of the Company. He joined the civil aviation industry in 1981, and attended the Air Force Changchun First Reserve Flight School from 1966 to 1967 and the Harbin First Navigation School from 1967 to 1969. Mr. Zhou performed his military service with the 34th Division of the Air Force from 1969 to 1981, and served as squadron leader in the 5th Fleet of the Civil Aviation from 1984 to 1988. Mr. Zhou was deputy fleet leader of China Eastern Airlines' Shanghai Fleet from 1988 to 1992, and leader of the said fleet from 1992 to 1997. From 1997 to 2000, he served as general manager and deputy party secretary of the Company's General Flight Department. In 2000 he became assistant president of the Company, and from 2000 to 2003 he served as president and deputy party secretary of China Cargo Airlines Limited. Mr. Zhou was the Company's chief economic official from December 2003 to April 2004. He became a vice president of the Company since April 2004. Mr. Zhou received university education and holds the title of First Class Pilot.

Mr. Zhang Jianzhong is a vice president of the Company. Mr. Zhang joined the civil aviation industry in 1982. From April 1982 to December 1987, he was an assistant of the Shanghai Civil Aviation Planning Bureau. From December 1987 to April 1987, he was the deputy director of the planning department of Shanghai Hongqiao International Airport. From April 1990 to January 1996, he was the director of the planning department of China Eastern Airlines. From January 1996 to April 1999, he was the manager of the sales and marketing department of China Eastern Airlines Corporation Limited. From April 1999 to April 2003, he was the Assistant to the President of China Eastern Airlines Corporation Limited. From September 2000 to December 2001, he served concurrently as the director of the office of strategic study of the Company. From December 2001 to May 2003, he served concurrently as the general manager of the computer information centre of the Company. From April 2003 to June 2004, he was the chief economic official of China Eastern Airlines Corporation Limited. From May 2003 to June 2004, he served concurrently as the general manager of the sales and marketing department of the Company. From June 2004 to the present, he has been a vice president of China Eastern Airlines Corporation Limited. Mr. Zhang graduated from the Faculty of Mechanical Engineering of Zhejiang University and Professional Study in Economics and Management at Fudan University, from which he obtained a master's degree.

Mr. Tong Guozhao is a vice president of the Company. Mr. Tong joined the civil aviation industry in 1980. From January 1980 to May 1992, Mr. Tong had been the deputy pilot, chief pilot and captain respectively of the flight team of Urumqi Civil Aviation Bureau. From May 1992 to April 1997, he had been the captain, sub-team leader, deputy squadron leader and squadron leader of the Shanghai Flight Team of China Eastern Airlines



Corporation. From April 1997 to May 1998, he was a vice president of the Shanghai Flight Team of China Eastern Airlines Corporation Limited. From May 1998 to March 2001, he was the president of the Safety Monitoring Department of China Eastern Airlines Corporation Limited. From March 2001 to January 2004, he was the president of the Anhui branch company of China Eastern Airlines Corporation Limited. From January 2004 to September 2004, he was the president of the China Cargo Airlines Corporation Limited and deputy party secretary. From September 2004 to April 2005, he was the president of China Eastern Airlines Corporation Limited cum president of the Operation Control Centre. Since April 2005, he has been a vice president of China Eastern Airlines Corporation Limited. Mr. Tong graduated from the Civil Aviation School and holds the title of Second Class Pilot.

Mr. Luo Weide is the Company's chief financial officer. In 1976 Mr. Luo began his military service at the Air Force in Liuan Airport. From 1979 to 1991 he successively served as department head and deputy head of the Putuo branch of the Shanghai Municipal Tax Bureau. From 1991 to 1993 he concurrently served as head of the finance bureau and the state asset bureau of Putuo District, Shanghai. From 1993 to 1998 he successively served as deputy chief accountant, chief accountant and executive deputy president of Shanghai Jinqiao (Group) Co., Ltd. From 1998 to 2000, he was vice president of Shanghai Pudong Development (Group) Co., Ltd. and chairman of the board and president of Pudong Finance Company. Since 2000 he has been chief financial officer of the Company. Mr. Luo graduated from the Sino-European International Business School in 1999 with a Master's degree in business administration. He holds the titles of Senior Accountant and Senior Economist.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in Rule 3.13 of the Listing Rules concerning his independence pursuant to Rule 3.15 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

### Changes in the Members of the Board of Directors and Management Personnel

Mr. Chen Quanxin would no longer serve as a Director of the Company.

The Company held a Board meeting on October 28, 2004 to elect Mr. Li Fenghua as the Chairman of the Board of Directors of the Company and Mr. Ye Yigan would no longer serve as the Chairman of the Board of Directors.

On the third meeting of the third Board meeting of the Company, nomination took place which was passed by the Company's 2003 Annual General Meeting for the appointment of Mr. Luo Zhuping as the Director of the Company, and the appointment of Mr. Wu Baiwang as an Independent Director of the Company.

On September 3, 2004, a Board meeting was held and it was resolved that Mr. Luo Chaogeng be appointed as the President of the Company. On April 5, 2004 a Board meeting of the Company was held and it was resolved that Mr. Zhou Liguang be appointed as Vice President of the Company. On June 2, 2004 a Board meeting of the Company was held and it was resolved that Mr. Zhang Jianzhong be appointed as Vice President of the Company. On April 1, 2005 a Board meeting of the Company was held and it was resolved that Mr. Tong Guozhao be appointed as Vice President of the Company.

## Shareholdings of Directors, Chief Executive, Supervisors and Senior Management

Save as disclosed above, as at December 31, 2004, none of the Directors, chief executives, Supervisors or members of the Company's senior management and their respective associates had any other interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any of such Directors, chief executives, Supervisors or members of the Company's senior management and their respective associates were taken or deemed to have under such provisions of the SFO) and as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the then Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules then in force (which shall be deemed to apply to the Supervisors to the same extent as it applied to the Directors).

In 2004 and as at December 31, 2004, none of the Directors, chief executives, Supervisors, senior management of the Company and/or any of their spouses or children under the age of eighteen were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for share capital or debt securities of the Company.

## Service Contracts of Directors and Supervisors

No Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## Interests of Directors and Supervisors in Contracts

None of the Directors or Supervisors had a material interest directly or indirectly in any contract of significance to which the Company or any of its subsidiaries was a party during the year (the term 'contract of significance' having the meaning ascribed thereto in paragraph 15 of Appendix 16 to the Listing Rules then in force and applicable at that time).

## Remuneration of Directors and Supervisors

Details of remuneration of Directors and Supervisors are set out in note 8 to the financial statements prepared in accordance with IFRS.

## Employees

As at December 31, 2004, the Group had 20,817 employees, a majority of them worked in the PRC.

## Medical Insurance

In January 2001, the Group joined the medical insurance scheme promulgated by the Shanghai Municipal Government. The Group and its employees contribute approximately 12% and 2% respectively of the employees' basic salaries to the scheme. The Group has no other obligation for the payment of medical

expenses other than the above-mentioned contributions. The Group believes that its contributions to such scheme will not have significant impact on the operation and the financial aspects of the Group.

### Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2004 are set out in notes 26 to 27 to the financial statements prepared in accordance with IFRS.

### Interest Capitalized

Interest capitalized for the Group as calculated in accordance with IFRS for the year ended December 31, 2004 was RMB57.12 million.

### Fixed Assets

Movements of fixed assets of the Company and the Group during the year are summarized in note 12 to the financial statements prepared in accordance with IFRS.

### Reserves

Details of movements in reserves of the Company and the Group for the year ended December 31, 2004 are set out in note 29 to the financial statements prepared in accordance with IFRS.

### Statutory Common Welfare Fund

Details in relation to the statutory common welfare fund, such as the nature and application of and movements in the fund, and the basis of its calculation, including the percentage used for calculating the amounts, are set out in note 29(c) to the financial statements prepared in accordance with IFRS.

### Donations

During the year, the Group made donations for charitable purposes amounting to RMB480 thousand.

### Employees' Retirement Scheme

Details of the Company's employee retirement scheme and post retirement benefits are set out in note 33 to the financial statements prepared in accordance with IFRS.

### Major Suppliers and Customers

As at December 31, 2004, the cost of aircraft and related materials from the Group's largest and five largest suppliers accounted for approximately 16.34% and 48.57%, respectively, of the total purchases of the Group. The aggregate percentage of sales attributable to the Group's five largest customers combined accounted for 7.81% of the Group's total sales in 2004.

China Eastern Airlines Group Corporation is interested in 55% of Shanghai Dongmei Air Travel Company Limited, one of the top five customers, since May 2003, whereas the Company is interested in 45%. In 2004, the air ticket sales which the Group delegated Dongmei Air Travel Company Limited as its agent accounted for approximately 1.96% of the total sales of the Group.

Except as disclosed above, none of the Directors, Supervisors or any of their respective associates nor any shareholder to the knowledge of the Directors holding 5% or more of the Company's share capital had any interest in any of the above mentioned suppliers and customers.

## Material Contracts

- (1) On April 28, 2004, the Company entered into an agreement for the sales of 24 commercial aircraft spare engines and 17 agreements for the leasing of 17 commercial aircraft spare engines with an independent third party. The transaction under the sales contract amounted to approximately RMB745 million. After the sales, the Company leased back 17 of the commercial aircraft spare engines in the form of operating leases for, in respect of one of the engines, a term of 4 years, and in respect of the other 16, terms of 7 years. For details, please refer to the announcement of the Company dated May 4, 2004.
- (2) On October 9, 2004, the Company entered into an aircraft purchase agreement with Airbus SAS (空中客車公司) to purchase 20 A330-300 aircraft. The market price in the contract ranged from US\$162.9 million to US\$170.1 million per aircraft. The delivery is scheduled to take place from 2006 to 2008. For details, please refer to the announcement of the Company dated October 13, 2004.
- (3) On December 23, 2004, the Company entered into an aircraft purchase agreement with the Boeing Company to purchase six 737-700 aircraft. The contract price amounted to approximately RMB2,000 million. The delivery is schedule to commence in January 2006 and be completed by August 2006. For details, please refer to the announcement of the Company dated December 23, 2004.
- (4) Details of material contracts entered into subsequent to the balance sheet date are set out in note 42 to the financial statements prepared in accordance with IFRS.

## AGM and Board Meetings

### AGM

The 2003 Annual General Meeting of the Company was held on June 18, 2004 at Function Room 2, Grand Ballroom, Shanghai Marriott Hotel Hongqiao, 2270 Hongqiao Road, Shanghai, the PRC to consider the resolutions proposed by the Board of Directors, and approved by way of ordinary resolutions: the working report of the Board of Directors for 2003; the working report of the Supervisory Committee for 2003; the audited financial report and final accounts for 2003; the profit appropriation proposal for 2003; the appointment of both domestic and overseas accountants for the Company; the proposal for the election of the 4th Board of Directors of the Company; the proposal for the election of the 4th Supervisory Committee. Certain provisions of the Articles of Association of the Company were amended by way of special resolution.

### Board Meetings

During 2004 the Company's Board of Directors held five regular meetings and passed, among other resolutions, the following resolutions:

Reviewing and approving the Company's financial budget and investment proposal for 2004; reviewing and approving the Company's working report of the President for 2003, the audited financial report for 2003, profit appropriation proposal (considering the cash flow and the continuing operation of the Company for 2003,

it has been resolved that no profit shall be distributed for the year 2003 and no increase in capital reserve shall be made for the period) and the announcement of its results; reviewing and approving the sale of its 65% of shareholding in Luqi (Jinan) Eastern Airlines Food Company Limited to Eastern Air Catering Company Limited; reviewing and approving the resolution that the undistributed profit of Civil Aviation Huadong Kaiye System Integration Company Limited be transferred as an increase in capital; reviewing and approving a motion to propose to the shareholders' meeting the re-appointments of Shanghai Zhonghua Certified Public Accounts and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong as the Company's domestic and overseas auditors for 2004; reviewing and approving the resolution to appoint Mr. Zhou Liguang as the Vice President of the Company; reviewing and approving the report and financial report for the first quarter of 2004, and the resolution to amend certain provisions of the Articles of Association for submission to the shareholders' general meeting for 2003, for its reviewing and approving; the nomination of Messrs Ye Yegan, Li Fenghua, Cao Jianxiong, Wan Mingwu, Zhong Xiong and Luo Zhuping as the candidates for the 4th Board of Directors of the Company, nomination of Messrs Xie Rong, Hu Honggao, Zhou Ruijin, Peter Lok and Wu Baiwang as candidates of the Supervisory Committee, and submission to the shareholders' general meeting for the year 2003 for reviewing; reviewing the resolution to convene shareholders' general meeting for the year 2003; reviewing and approving the interim financial report and the draft of the announcement of the interim result for the year 2004; reviewing the resolution to accept the resignation of Mr. Ye Yigan as the Chairman of the Board of Directors of the Company and election of Mr. Li Fenghua as the Chairman of the Board of Directors of the Company.

## Connected Transactions

On February 18, 2004, the Company entered into an agreement (the "CEA Real Estate Agreement") with CEA Holding, its holding company, in relation to the establishment of 東航房地產投資有限公司 (China Eastern Real Estate Investment Co. Ltd.) ("CEA Real Estate"), a limited liability company established under the laws of PRC for an initial term of 15 years. The registered capital of CEA Real Estate is RMB100,000,000, which is interested as to 95% by CEA Holding and 5% by the Company. Under the CEA Real Estate Agreement, the Company has made its capital contribution in the amount of RMB5,000,000 (representing 5% of CEA Real Estate's registered capital) towards CEA Real Estate by way of cash. CEA Real Estate is engaged in the principal business of real estate (including the development and selling of commercial premises and property leasing) in Shanghai, the PRC. The Company's investment in CEA Real Estate has been accounted for in the Company's accounts as an investment item. As the property market in Shanghai has been developing steadily, the Board believes that the Company's investment in CEA Real Estate will enhance the Company's returns on its investments and, hence, will be beneficial to the Company and its shareholders. As CEA Holding is the controlling shareholder of the Company, CEA Holding is a connected person of the Company and, hence, the establishment of CEA Real Estate by CEA Holding and the Company pursuant to the CEA Real Estate Agreement constitutes a connected transaction for the Company under Rule 14.23(1)(a) of the then applicable Listing Rules. As such connected transaction falls within the de-minimis provision under Rule 14.25(1) of the then applicable Listing Rules, it is not subject to shareholders'

approval. For details, please refer to the announcement of the Company dated February 18, 2004.

As CEA Holding holds approximately 61.64% of the issued share capital of the Company, certain transactions entered into between the Group and CEA Holding and its associates constitute connected transactions for the Company under the Listing Rules.

Details of the Group's continuing connected transactions with the Company's connected persons (as defined in the Listing Rules) during the year ended December 31, 2004 are set out in note 38 to the financial statements prepared in accordance with IFRS.

The Company's independent non-executive Directors have reviewed such continuing connected transactions during the year 2004 and confirmed that:-

- (a) the transactions have been entered into by the Group in the ordinary and usual course of its business;
- (b) the transactions have been entered into either (i) on normal commercial terms (by reference to transactions of a similar nature made by similar entities within China) or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the transactions have been entered into either (i) in accordance with the terms of the agreement governing each such connected transaction or (ii) (where there is no such agreement) on terms no less favourable than terms available to third parties.

In respect of each continuing connected transaction disclosed in note 38 to the financial statements prepared in accordance with IFRS, the Company confirms that it has complied with the relevant requirements then applicable under the Listing Rules then in force or a waiver from such requirements has been obtained from the Stock Exchange.

Details of the other related party transactions entered by the Group during the year ended December 31, 2004 are set out in note 38 to the financial statements prepared in accordance with IFRS. These transactions do not constitute connected transactions under the Listing Rules.

### Waiver from Compliance with the Listing Rules

Pursuant to Rule 14.04(8) of the Listing Rules which took effect immediately before March 31, 2004, the Stock Exchange has granted to the Company a waiver from strict compliance with the provisions of Chapter 14 of the Listing Rules then in force and applicable, which related to notifiable transactions, in relation to the acquisition or disposal of aircraft. The major terms of the waiver are summarized as follows:

- (a) instead of the normal tests under Chapter 14 of the Listing Rules then in force and applicable, the tests for the Company are made by reference to the Available Tonne Kilometers ("ATKs") for aircraft being acquired or disposed of as compared to the Company's aggregate fleet ATKs;
- (b) the proposed test replaces the relevant net asset test and the consideration test only, while the net profit and equity capital tests under Chapter 14

- of the Listing Rules then in force and applicable still apply;
- (c) the calculation of ATKs is as follows:
- (i) fleet ATKs are the aggregate actual ATKs for all aircraft in the Company's fleet for the last financial year as disclosed in the Company's annual report;
  - (ii) ATKs for aircraft being disposed of are based on actual ATKs of the aircraft for the previous two financial years; and
  - (iii) ATKs for aircraft being acquired are based on the historical operating data for the type of aircraft. Where the aircraft to be acquired is of a new type, the ATKs are estimated based on other aircraft of similar size operated by the Company or the average for the Chinese civil aviation industry;
- (d) the Company's ATKs figure would be disclosed in the Company's annual report and reviewed by auditors who would confirm on an annual basis that the Company's ATKs are calculated correctly and consistently;
- (e) for the purposes of making the test stated in (a) above, all acquisitions and disposals for the last 12 months are aggregated, unless the acquisition or disposal has previously been reported as a notifiable transaction pursuant to the rules set out herein;
- (f) the thresholds for classifying a transaction as a discloseable, major or very substantial acquisition are 33 $\frac{1}{3}$ %, 50% and 100% (assuming that there are no circumstances which would make it a connected transaction or a share transaction);
- (g) where the transaction is a discloseable transaction, disclosure takes the form of a press announcement complying with Rule 14.14 of the Listing Rules then in force and applicable and details of the transaction are to be set out in the Company's annual report and accounts. Where the transaction is a major transaction or a very substantial acquisition, the applicable provisions of Chapter 14 of the Listing Rules then in force apply;
- (h) an option to acquire aircraft is not treated as acquisition while the exercise of such an option is treated as acquisition of an aircraft;
- (i) the Company shall disclose in its annual reports and interim reports the following information:
- (i) regarding future deliveries of aircraft, details of aircraft on order including the number and type, and the years in which such aircraft are scheduled to be delivered;
  - (ii) the number and type of aircraft which are subject to options exercisable during a period of not less than 12 months from the end of the financial year or period to which the report relates; and
- (j) should there be any change in control of the Company, the Stock Exchange will need to reconsider whether the waiver continues to be appropriate.

In relation to future deliveries of aircraft, as at December 31, 2004, the following are details of aircraft on order which are scheduled to be delivered:

Type of aircraft	Number of aircraft	Year to be delivered
A320	5	2005
A321	2	2005
B737-800	3	2005
ERJ-145	3	2005
A330-300	7	2006
A330-200	3	2006
A319	3	2006
B737-700	6	2006
ERJ-145	2	2006

\* Except for three Boeing B737-800 aircraft to be acquired under operating leases, the other aircraft will be purchased by the Company.

As at the date of this report, the Directors are not aware of any aircraft which are subject to options exercisable during a period of not less than 12 months from December 31, 2004.

### Staff Quarters

Details of the Group's staff quarters are set out in note 34 to the financial statements prepared in accordance with IFRS.

### Material Litigation

The Group was not involved in any material litigation or arbitration in the year ended December 31, 2004.

### Special Auditing Opinion and Independent Directors' Opinion

Shanghai Zhonghua Certified Public Accountants have performed a special auditing work and issued special auditing opinion on the fund transfer between the Company, its controlling shareholder and other related parties, as required by the relevant requirements of the China Securities Regulatory Commission.

Independent directors of the Company have performed an auditing work and issued independent opinion on the guarantees the Company has provided, as required by the relevant requirements of the China Securities Regulatory Commission. The Company has strictly observed relevant laws and regulations as well as its article of association while it has also imposed strict control on the guarantees provided. As of December 31, 2004, none of the Company and its subsidiaries has provided any guarantee to the Company's controlling shareholder and other related parties, other non-legal person entity units and individuals.

### Auditors

PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and Shanghai Zhonghua Certified Public Accountants (registered accountants in the PRC) were the Company's international and domestic auditors in 2004, respectively.

On behalf of the Board

**Li Fenghua**

*Chairman of the Board*

Shanghai, China

April 12, 2005