PRICEWATERHOUSECOOPERS

TO THE SHAREHOLDERS OF CHINA EASTERN AIRLINES CORPORATION LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2004, and the related consolidated income statement, consolidated cashflow statement and consolidated statement of changes in shareholders' equity for the year then ended, and the balance sheet of the Company as at 31 December 2004. These financial statements set out on pages 57 to 120 are the responsibility of the Company's management. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2004, and of the results of the Group's operations and cashflows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 12 April 2005

Consolidated Income Statement

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Traffic revenues			
Passenger		**15,357,614**	10,261,027
Cargo and mail		**4,428,360**	3,186,984
Other operating revenues		**1,252,802**	829,147
Turnover	3	**21,038,776**	14,277,158
Other operating income, net	4	**154,422**	60,890
Operating expenses			
Wages, salaries and benefits	5	**(1,865,879)**	(1,449,054)
Take-off and landing charges		**(3,019,742)**	(2,254,456)
Aircraft fuel		**(5,429,658)**	(3,044,956)
Food and beverages		**(758,046)**	(541,669)
Aircraft depreciation and operating leases		**(3,672,133)**	(2,851,047)
Other depreciation, amortisation and operating leases		**(495,916)**	(495,079)
Aircraft maintenance		**(1,396,283)**	(1,329,304)
Commissions		**(772,219)**	(465,147)
Office and administration		**(1,337,850)**	(1,057,500)
Others		**(966,295)**	(628,373)
Total operating expenses		**(19,714,021)**	(14,116,585)
Operating profit		**1,479,177**	221,463
Non-operating income	38(c)(ii)	**133,029**	–
Finance costs, net	6	**(762,687)**	(782,783)
Share of results before tax of associates	16	**(4,112)**	(28,511)
Profit/(loss) before taxation	7	**845,407**	(589,831)
Income tax expenses	9(a)	**(181,224)**	(247,554)
Profit/(loss) after taxation		**664,183**	(837,385)
Minority interests	32	**(150,108)**	(112,431)
Profit/(loss) attributable to shareholders		**514,075**	(949,816)
Earnings/(loss) per share			
– basic and diluted	10	**RMB0.11**	(RMB0.20)

Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Fixed assets	12	**30,220,319**	26,838,903
Construction in progress	13	**188,654**	219,788
Lease prepayments	14	**828,808**	847,319
Investments in associates	16	**656,190**	626,084
Goodwill and negative goodwill	17	**36,303**	38,505
Advances on aircraft and flight equipment	18	**2,678,603**	2,239,893
Other long-term receivables and investments	19	**2,202,606**	1,962,362
Deferred tax assets	30	**395,465**	399,771
Derivative assets	40	**11,571**	2,814
		37,218,519	33,175,439
Current assets			
Flight equipment spare parts less allowance for obsolescence (2004: RMB471,750,000 ; 2003: RMB400,534,000)		**523,186**	552,172
Trade receivables less allowance for doubtful accounts (2004: RMB94,147,000 ; 2003: RMB83,663,000)	20	**1,462,672**	1,325,677
Prepayments, deposits and other receivables	21	**1,108,964**	1,371,043
Cash and cash equivalents		**2,114,447**	1,582,780
		5,209,269	4,831,672
Current liabilities			
Trade payables	22	**64,718**	109,242
Notes payables	22	**838,337**	756,490
Sales in advance of carriage		**719,957**	926,453
Other payables and accrued expenses	23	**5,353,649**	4,299,989
Current portion of obligations under finance leases	25	**1,189,648**	1,692,084
Current portion of long-term bank loans	26	**3,193,432**	2,250,734
Tax payable		**162,606**	106,113
Short-term bank loans	27	**6,188,919**	4,631,918
		17,711,266	14,773,023
Net current liabilities		**(12,501,997)**	(9,941,351)
Total assets less current liabilities		**24,716,522**	23,234,088

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Share capital	28	**4,866,950**	4,866,950
Reserves	29	**2,015,294**	1,515,201
Total capital and reserves		**6,882,244**	6,382,151
Minority interests	32	**831,208**	522,713
Non-current liabilities			
Obligations under finance leases	25	**7,472,638**	5,408,802
Long-term bank loans	26	**7,542,828**	8,972,189
Deferred tax liabilities	30	**752,917**	740,112
Accrued aircraft overhaul expenses	24	**175,960**	191,384
Long-term portion of other payable	31	**100,204**	121,860
Post-retirement benefit obligations	33(b)	**562,632**	545,771
Long-term portion of staff housing allowances	34(b)	**276,248**	254,669
Derivative liabilities	40	**119,643**	94,437
		17,003,070	16,329,224
		24,716,522	23,234,088

These financial statements have been approved for issue by the Board of Directors on 12 April 2005.

Li Fenghua
Director

Wan Mingwu
Director

Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Fixed assets	12	**25,625,117**	22,383,760
Construction in progress	13	**77,534**	92,520
Lease prepayments	14	**396,481**	405,204
Investments in subsidiaries	15	**2,761,508**	3,808,615
Investments in associates	16	**625,964**	590,601
Goodwill and negative goodwill	17	**36,303**	38,505
Advances on aircraft and flight equipment	18	**2,678,603**	2,239,893
Other long-term receivables and investments	19	**2,181,581**	1,925,548
Deferred tax assets	30	**344,711**	349,318
Derivative assets	40	**11,571**	2,814
		34,739,373	31,836,778
Current assets			
Flight equipment spare parts less allowance for obsolescence (2004: RMB456,091,000; 2003: RMB393,105,000)		**492,977**	517,802
Trade receivables less allowance for doubtful accounts (2004: RMB87,994,000; 2003: RMB 77,967,000)	20	**927,093**	845,504
Prepayments, deposits and other receivables	21	**819,994**	1,122,511
Cash and cash equivalents		**921,252**	645,985
		3,161,316	3,131,802
Current liabilities			
Trade payables	22	**61,627**	65,420
Notes payables	22	**838,337**	658,901
Sales in advance of carriage		**711,441**	773,309
Other payables and accrued expenses	23	**4,685,598**	3,605,920
Current portion of obligations under finance leases	25	**1,189,648**	1,692,084
Current portion of long-term bank loans	26	**3,185,156**	2,250,734
Short-term bank loans	27	**4,255,919**	3,971,918
		14,927,726	13,018,286
Net current liabilities		**(11,766,410)**	(9,886,484)
Total assets less current liabilities		**22,972,963**	21,950,294

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Share capital	28	**4,866,950**	4,866,950
Reserves	29	**1,350,272**	970,963
Total capital and reserves		**6,217,222**	5,837,913
Non-current liabilities			
Obligations under finance leases	25	**7,472,638**	5,408,802
Long-term bank loans	26	**7,520,481**	8,972,189
Deferred tax liabilities	30	**685,114**	663,954
Accrued aircraft overhaul expenses	24	**133,011**	138,310
Long-term portion of other payable	31	**100,204**	121,860
Post-retirement benefit obligations	33(b)	**472,174**	470,429
Long-term portion of staff housing allowances	34(b)	**252,476**	242,400
Derivative liabilities	40	**119,643**	94,437
		16,755,741	16,112,381
		22,972,963	21,950,294

These financial statements have been approved for issue by the Board of Directors on 12 April 2005.

Li Fenghua
Director

Wan Mingwu
Director

Consolidated Cash Flow Statement

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Cash flows from operating activities:		
Profit/(loss) after taxation before minority interests	**664,183**	(837,385)
Adjustments to reconcile profit/(loss) attributable to shareholders to net cash from operating activities:		
Depreciation of fixed assets	**2,282,195**	1,974,462
Losses on disposal of aircraft and flight equipment	**40,564**	28,767
(Gains)/losses on disposals of other fixed assets	**(13,001)**	4,811
Fair value gains on short-term investments	**(5,235)**	(21,920)
Amortisation of lease prepayments	**18,414**	20,049
Provision for post-retirement benefits	**24,611**	20,844
Amortisation of goodwill and negative goodwill	**2,202**	2,202
Interest income (including amortisation of bond discount)	**(129,020)**	(147,846)
Interest expenses	**870,988**	860,304
Provision for income tax	**160,502**	124,530
Share of results after tax of associates	**5,256**	32,738
Foreign exchange (gains)/losses	**(40,168)**	77,850
Movements in:		
Flight equipment spare parts	**28,986**	4,204
Trade receivables	**(136,995)**	(360,451)
Prepayments and other receivables	**(361,345)**	197,006
Trade payables	**(44,524)**	44,719
Sales in advance of carriage	**(206,496)**	225,739
Other payables and accrued expenses	**1,069,237**	1,759,628
Interest accrued on a long-term payable	**8,344**	9,610
Deferred taxation	**19,578**	118,797
Long-term portion of accrued aircraft overhaul expenses	**(15,424)**	(52,300)
	3,578,669	4,923,743
Cash generated from operations	**4,242,852**	4,086,358
Interest paid	**(872,738)**	(860,304)
Income tax paid	**(104,009)**	(62,977)
Net cash inflow from operating activities	**3,266,105**	3,163,077

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Cash flows from investing activities:		
Additions of aircraft and flight equipment	**(1,206,508)**	(5,560,406)
Instalment payment for acquisition of an airlines business	**(30,000)**	(30,000)
Proceeds on disposals of aircraft, flight equipment, other fixed assets and equipment	**667,824**	91,940
Purchase of buildings, other fixed assets and equipment	**(319,337)**	(216,211)
Additions of construction in progress	**(178,065)**	(249,737)
Investments in associates	**(12,673)**	(327,252)
Advances on aircraft and flight equipment	**(2,076,990)**	(1,295,656)
Repayments of advances on aircraft and flight equipment	**80,000**	–
Proceeds from maturity of US Treasury zero coupon bonds	**585,736**	–
Increase in long-term bank deposits	**(51,108)**	(64,255)
Purchase of short-term investments	**(270,350)**	–
Proceeds from disposals of short-term investments	**275,585**	311,920
Interest received	**71,900**	104,243
Net decrease/(increase) in short-term deposits with original maturities over three months	**31,424**	(69,246)
Net cash outflow from investing activities	**(2,432,562)**	(7,304,660)
Cash flows from financing activities:		
Proceeds from short-term bank loans	**8,988,970**	10,920,917
Repayments of short-term bank loans	**(7,431,931)**	(10,815,508)
Proceeds from long-term bank loans	**2,155,310**	5,606,107
Repayments of long-term bank loans	**(2,647,930)**	(898,022)
Principal repayments of finance lease obligations	**(1,617,001)**	(1,400,749)
Proceeds from notes payables	**1,347,786**	1,254,030
Repayments of notes payables	**(1,265,939)**	(908,790)
Capital injection from minority shareholders	**218,387**	5,765
Dividends paid to minority shareholders	**(60,000)**	–
Net cash (outflow)/inflow from financing activities	**(312,348)**	3,763,750
Net increase/(decrease) in cash and cash equivalents	**521,195**	(377,833)
Cash and cash equivalents at 1 January	**1,582,780**	1,944,525
Exchange adjustment	**10,472**	16,088
Cash and cash equivalents at 31 December	**2,114,447**	1,582,780

Consolidated Statement of Changes in Shareholders' Equity

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

	Share capital (note 28) RMB'000	Other reserves (note 29) RMB'000	Retained profits (note 29) RMB'000	Total RMB'000
Balance at 1 January 2003	4,866,950	1,004,655	1,507,498	7,379,103
Net gains/(losses) not recognised in the income statement				
Unrealised losses on cashflow hedges	–	(62,810)	–	(62,810)
Realised losses on cashflow hedges	–	13,156	–	13,156
Release of reserves upon disposals of aircraft	–	(14,269)	16,787	2,518
	–	(63,923)	16,787	(47,136)
Loss attributable to shareholders	–	–	(949,816)	(949,816)
Transfer from retained profits to other reserves	–	72,510	(72,510)	–
Balance at 31 December 2003 and 1 January 2004	**4,866,950**	**1,013,242**	**501,959**	**6,382,151**
Net losses not recognised in the income statement				
Unrealised losses on cashflow hedges	–	(5,143)	–	(5,143)
Realised gains on cashflow hedges	–	(8,839)	–	(8,839)
	–	(13,982)	–	(13,982)
Profit attributable to shareholders	–	–	514,075	514,075
Transfer from retained profits to other reserves	–	67,136	(67,136)	–
Balance at 31 December 2004	**4,866,950**	**1,066,396**	**948,898**	**6,882,244**

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

1. Corporate Information

China Eastern Airlines Corporation Limited (the "Company") was incorporated in the People's Republic of China ("PRC") as a joint stock company limited by shares on 14 April 1995. The Company is majority owned by China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise. The Company and its subsidiaries (the "Group") are principally engaged in the operation of civil aviation, air cargo, postal delivery and other extended transportation services.

2. Principal Accounting Policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The statutory accounts of the Group have been prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). In preparing these financial statements, appropriate restatements have been made to the Group's statutory accounts to conform with IFRS.

The consolidated financial statements have been prepared under historical cost convention as modified by the revaluation of fixed assets, short-term investments and derivative financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Group accounting

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note 2(m) for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses.

(ii) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(ii) Associates (Cont'd)

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB") which is the measurement currency of the Group. Transactions in foreign currencies are translated at the applicable rates of exchange prevailing at the dates of the transactions, quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the rates prevailing at the balance sheet date as quoted by the People's Bank of China. Exchange differences are included in the income statement, except when deferred in equity as qualifying cashflow hedges.

(d) Revenue recognition and sales in advance of carriage

Passenger, cargo and mail revenues are recognised as traffic revenues when the transportation services are provided. The value of sold but unused tickets is included in the current liabilities as sales in advance of carriage.

Revenues from other operating businesses, including income derived from the provision of ground services and commission income are recognised when services are rendered. Commission income includes amounts earned from other carriers in respect of sales made by the Group's agents. The related commission payable to agents are included as commission expenses in the income statement in the period that revenue is recognised. Rental income from leasing office premises and cargo warehouses is recognised on a straight-line basis over the lease term.

Revenues are presented net of business tax.

Interest income is recognised on a time-proportionate basis.

Rental income from subleases is recognised on a straight-line basis over the terms of the respective leases.

(e) Segmental reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(e) Segmental reporting (Cont'd)

In respect of the geographical segment, the analysis of turnover and operating profit by geographical segment is based on the following criteria:–

(i) Traffic revenue from domestic services within the PRC (excluding Hong Kong Special Administrative Region ("Hong Kong")) is attributed to the domestic operation. Traffic revenue from inbound and outbound services between the PRC and Hong Kong or overseas markets is attributed to the geographical area in which the relevant overseas origin or destination lies.

(ii) Other operating revenues from ticket handling services, airport ground services and other miscellaneous services are attributed on the basis of where the services are performed.

(f) Retirement benefits

The Group participates in defined contribution retirement schemes regarding pension and medical benefit for employees organised by the municipal governments of respective provinces. The contributions to the schemes are charged to the income statement as and when incurred.

In addition, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(g) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill certain return conditions under relevant leases. In order to fulfill these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, the present value of estimated costs of major overhauls for aircraft and engines under operating leases are accrued and charged to the income statement over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhaul comprise mainly labour and materials. Differences between the estimated cost and the actual cost of the overhaul are included in the income statement in the period of overhaul.

All other routine repairs and maintenance costs incurred in restoring such fixed assets to their normal working condition are charged to the income statement as and when incurred.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(h) Government grant

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.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the fixed assets are included in non-current liabilities as other liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(i) Taxation

The Group provides for taxation on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with the relevant tax rules and regulations applicable in the jurisdictions where the Group operates.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured using tax rates enacted, or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(j) Fixed assets

(i) Fixed assets are recognised initially at cost which comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

Subsequent to the initial recognition, fixed assets are stated at revalued amount less accumulated depreciation and accumulated impairment losses. Independent valuations are performed at least every five years or sooner if considered necessary by the directors. In the intervening years, the directors review the carrying values of the fixed assets and adjustment is made where these are materially different from fair value. Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases in valuation of fixed assets are first offset against increases from earlier valuations of the same asset and are thereafter charged to the income statement. All other decreases in valuation are charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged.

(ii) Depreciation of fixed assets is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual value over their estimated useful lives. The estimated useful lives used for the calculation of annual depreciation charges are as follows:–

Aircraft	–	20 years
Flight equipment		
– Engines	–	20 years
– Other flight equipment	–	20 years
Buildings	–	15 to 35 years
Other fixed assets and equipment	–	5 to 20 years

(iii) Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

2. Principal Accounting Policies (Cont'd)

(k) Construction in progress

Construction in progress represents office buildings, various infrastructure projects under construction and plant and equipment pending installation. This includes the costs of construction and acquisition and interest capitalised. No depreciation is provided on construction in progress until the asset is completed and put into use.

(l) Lease prepayments

Lease prepayments represent acquisition costs of land use rights less accumulated amortisation. Amortisation is provided over the lease period of land use rights on a straight-line basis.

(m) Goodwill and negative goodwill

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition.

Goodwill arising from a business combination is presented as cost less accumulated amortisation and accumulated impairment losses. Amortisation is made using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(ii) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired subsidiary or associate over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill.

To the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets. Negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

(Prepared in accordance with International Financial Reporting Standards)
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2. Principal Accounting Policies (Cont'd)

(m) Goodwill and negative goodwill (Cont'd)

(ii) Negative goodwill (Cont'd)

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amounts exceeds the recoverable amount.

The gain or loss on disposals of an entity includes the carrying amount of goodwill relating to the entity sold.

(n) Advances on aircraft and flight equipment

Advance contract payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years are capitalised along with attributable interests, and transferred to fixed assets upon delivery of the aircraft.

(o) Borrowing costs

Interest attributable to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalised as an additional cost of the related asset. Interest is capitalised at the Group's weighted average interest rate on borrowings or, where applicable, the interest rate related to specific borrowings during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(p) Long-term bank deposits

Long-term bank deposits placed to secure future lease obligations are classified as held-to-maturity financial assets and measured at amortised cost.

(q) Impairment

Fixed assets and other non-current assets, including goodwill are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cashflows.

(r) Flight equipment spare parts

Flight equipment spare parts are carried at weighted average cost less allowance for obsolescence.

(s) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cashflows, discounted at the effective interest rate.

2. Principal Accounting Policies (Cont'd)

(t) Cash and cash equivalents

Cash and short-term highly liquid investments, which are readily convertible into cash and have original maturities of three months or less at the date of acquisition, are classified as cash and cash equivalents.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(v) Leases

(i) A Group company is the lessee

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement 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 the straight-line method over their expected useful lives to residual values.

Leases of assets under which a significant portion of the lease risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) A Group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

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Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(w) Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (i.e. fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (i.e. cashflow hedge).

Derivative financial instrument that does not qualify for hedge accounting is accounted for as trading instrument and any unrealised gain or loss, being changes in fair value of the derivative, is recognised in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instrument that qualifies for hedge accounting and is designated as a specific hedge of the variability in cashflows of a highly probable forecast transaction, is accounted for as follows:–

(i) the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are included in the initial measurement of the cost of the asset or liability. Otherwise, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects net profit or loss.

(ii) the ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the committed or forecasted transaction ultimately occurs. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(x) Dividend

Dividend distribution to the Company's shareholders is recongised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

2. Principal Accounting Policies (Cont'd)

(y) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Revenues and Turnover

The Group is principally engaged in the provision of domestic, Hong Kong and international passenger, cargo and mail airline services. Turnover comprises revenues from airline and related services net of business tax and civil aviation infrastructure levies.

	Group	
	2004	2003
	RMB'000	RMB'000
Gross turnover	**21,566,944**	14,575,443
Less: Business tax (note (a))	**(528,168)**	(168,639)
Civil aviation infrastructure levies (note (b))	**–**	(129,646)
	21,038,776	14,277,158

(a) Pursuant to various PRC business tax rules and regulations, the Group is required to pay PRC business tax. Except for traffic revenues derived from inbound international and regional flights which are not subject to PRC business tax, the Group's traffic revenues, commission income and ground service income are subject to PRC business tax levied at rates ranging from 3% to 5%.

(b) Prior to 1 May 2003, the civil aviation infrastructure levies were paid to Civil Aviation Administration of China ("CAAC"), at rates of 5% and 2% respectively for domestic and international or regional traffic revenues.

From 1 May 2003 to 31 March 2004, civil aviation infrastructure levies for all traffic revenues of the Group are waived by CAAC, in compensating for the airlines' losses on revenue due to the outbreak of Severe Acute Respiratory Syndrome ("SARS").

Effective from 1 April 2004, in accordance with the related new policy promulgated by the PRC Government, civil aviation infrastructure levies are payable based on the route, aircraft model and tonne-kilometers, and the levies of RMB251,185,000 incurred for the year ended 31 December 2004 are recorded in the operating expenses.

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Year ended 31 December 2004

4. Other Operating Income, net

	Group	
	2004	2003
	RMB'000	RMB'000
Rental income from operating subleases of aircraft (note 38(c)(i))	**121,480**	31,209
Government subsidy (note (a))	**73,506**	58,448
Losses on disposals of aircraft and engines (note (b))	**(40,564)**	(28,767)
	154,422	60,890

(a) In 2004, government subsidy was granted by the local government to the Company in consideration of the relocation of the Company's international flights and related facilities from Hongqiao Airport to Pudong International Airport. In 2003, the government subsidy was granted for compensation of SARS impact on airlines business.

(b) During the year, the Group disposed 17 engines (2003: three B737-200 aircraft) to a third party.

5. Wages, Salaries and Benefits

	Group	
	2004	2003
	RMB'000	RMB'000
Wages, salaries and allowances	**1,590,722**	1,027,092
Contribution under defined contribution retirement schemes (note 33(a))	**194,200**	121,200
Post-retirement benefits (note 33(b)(iii))	**51,704**	40,299
Staff housing allowances (note 34(b))	**29,253**	260,463
	1,865,879	1,449,054
Average number of employees for the year ended	**19,666**	16,435

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

6. Finance Costs, Net

	Group 2004 RMB'000	Group 2003 RMB'000
Interest charged on obligations under finance leases	**339,276**	490,456
Interest on bank loans		
– wholly repayable within five years	**431,517**	265,955
– not wholly repayable within five years	**144,693**	180,291
	576,210	446,246
Net foreign exchange losses	**32,207**	62,179
Interest accrued on a long-term payable (note 31)	**8,344**	9,610
Interest on loans from an associate	**1,629**	6,396
Less: amounts capitalised into advances on aircraft and flight equipment (note 18)	**(57,120)**	(97,414)
	900,546	917,473
Interest income	**(129,020)**	(147,846)
	771,526	769,627
Fair value (gains)/losses on financial instrument		
– interests rate swap	**2,659**	5,010
– forward foreign exchange contract	**(11,498)**	8,146
	762,687	782,783

The capitalisation rates used for the year ended 31 December 2004 ranged between 3 months LIBOR+0.25% and 5.76% per annum (2003: 3 months LIBOR+0.25% and 5.76% per annum).

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

7. Profit/(loss) before Taxation

	Group	
	2004	2003
	RMB'000	RMB'000
Profit/(loss) before taxation is stated after charging:–		
Depreciation of fixed assets		
– owned assets	**1,698,260**	1,396,739
– assets held under finance leases and for own use	**583,935**	577,723
Operating lease rentals		
– aircraft	**1,720,736**	1,238,012
– land and buildings	**146,704**	116,279
Amortisation of lease prepayments	**18,414**	20,049
Loss on disposals of other fixed assets	**–**	4,811
Amortisation of goodwill and negative goodwill	**2,202**	2,202
Consumption of consumables	**139,711**	86,009
Allowances for obsolescence of flight equipment spare parts	**73,406**	53,336
Allowances for doubtful accounts	**24,250**	19,229
Auditors' remuneration	**7,380**	7,380
and after crediting:–		
Gain on disposals of other fixed assets	**13,001**	–
Fair value gain on disposals of short-term investments	**5,235**	21,920

8. Emoluments of Directors, Supervisors and Senior Management

(a) Directors' and supervisors' emoluments comprise the following:–

	Group	
	2004	2003
	RMB'000	RMB'000
Emoluments for executive directors		
– salaries, allowances and benefits in kind	**202**	425
– bonuses	**269**	124
Emoluments for supervisors		
– salaries, allowances and benefits in kind	**127**	46
– bonuses	**113**	18
	711	613

During the year ended 31 December 2004, no directors and supervisors waived their emoluments (2003: nil).

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Year ended 31 December 2004

8. Emoluments of Directors, Supervisors and Senior Management (Cont'd)

(b) The five highest paid individuals of the Group are as follows:–

	Number of individuals	
	2004	2003
Directors	**1**	2
Non-directors and non-supervisors	**4**	3
	5	5

(c) The emoluments of the five highest paid individuals:–

One (2003: two) of the Group's five highest paid individuals in 2004 are executive directors whose remunerations are included in the directors' emoluments above. Details of the remuneration of the remaining four (2003: three) highest paid individuals are as follows:–

	Group	
	2004 RMB'000	2003 RMB'000
Salaries, allowances and benefits in kind	**981**	705
Bonuses	**431**	138
	1,412	843

During the year ended 31 December 2004, no emoluments were paid by the Group to the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2003: nil).

9. Taxation

(a) Taxation is charged to the consolidated income statement as follows:–

	Group	
	2004 RMB'000	2003 RMB'000
Provision for PRC income tax - current year	**160,502**	124,530
Deferred taxation (note 30)	**19,578**	118,797
	180,080	243,327
Share of tax attributable to associates (note 16)	**1,144**	4,227
	181,224	247,554

(Prepared in accordance with International Financial Reporting Standards)
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9. Taxation (Cont'd)

(i) Pursuant to the Circular Hu Shui Er Cai (2001) No. 104 dated 22 October 2001 issued by local tax bureau, with retrospective effect from 1 July 2001, the Company is entitled to a reduced income tax rate of 15%.

(ii) The Company has two major subsidiaries, namely China Cargo Airlines Co., Ltd. ("China Cargo") and China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu"). Pursuant to the Circular (2000) No. 52 jointly issued by the Shanghai Municipal Financial Bureau and Shanghai Municipal State Tax Bureau, China Cargo is subject to a reduced income tax rate of 15%. CEA Jiangsu is subject to the standard PRC income tax rate of 33%.

(iii) The difference between the actual taxation charge in the consolidated income statement and the amounts which would result from applying the enacted tax rate to profit/(loss) before taxation can be reconciled as follows:–

	Group	
	2004	2003
	RMB'000	RMB'000
Profit/(loss) before taxation	**845,407**	(589,831)
Tax calculated at enacted tax rate of 15%	**(126,811)**	88,475
Effect attributable to subsidiaries and associates charged at tax rate of 33%	**(24,902)**	(4,117)
Adjustments:–		
Expenses not deductible for tax purposes	**(35,428)**	(62,421)
Utilisation of previously unrecognised tax losses of the Company	**6,395**	–
Unrecognised tax losses of the Company	**–**	(258,515)
Unrecognised tax losses of associates	**(20,993)**	(14,821)
Utilisation of previously unrecognised tax losses of associates	**19,998**	–
Others	**517**	3,845
Tax charge	**(181,224)**	(247,554)

(b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the year as there exists double tax relief between PRC and the corresponding jurisdictions (including Hong Kong).

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10. Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of RMB514,075,000 (2003: loss of RMB949,816,000) and 4,866,950,000 (2003: 4,866,950,000) shares in issue during the year. The Company has no potential dilutive ordinary shares.

11. Dividend

On 12 April 2005, the Board of Directors proposed a final dividend of RMB0.02 per share totalling RMB97,339,000 for the year ended 31 December 2004 (2003: nil). These financial statements do not reflect this dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005.

12. Fixed Assets

	Group				
	Aircraft and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other fixed assets and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2004	22,163,218	10,956,426	2,224,520	2,038,181	37,382,345
Reclassification upon purchase of aircraft under a finance lease	356,328	(356,328)	–	–	–
Lease rebate upon purchase of aircraft under a finance lease (note a)	(98,921)	–	–	–	(98,921)
Transfers from construction in progress (note 13)	–	–	84,847	124,352	209,199
Transfers from advances (note 18)	535,548	1,079,852	–	–	1,615,400
Additions	1,574,829	2,808,904	22,159	227,428	4,633,320
Disposals	(912,312)	–	(77,511)	(68,604)	(1,058,427)
At 31 December 2004	23,618,690	14,488,854	2,254,015	2,321,357	42,682,916
Accumulated depreciation					
At 1 January 2004	5,657,593	3,613,309	334,951	937,589	10,543,442
Reclassification upon purchase of aircraft under a finance lease	40,746	(40,746)	–	–	–
Charge for the year	1,367,462	583,935	85,761	245,037	2,282,195
Disposals	(283,444)	–	(28,503)	(51,093)	(363,040)
At 31 December 2004	6,782,357	4,156,498	392,209	1,131,533	12,462,597
Net book value at 31 December 2004	**16,836,333**	**10,332,356**	**1,861,806**	**1,189,824**	**30,220,319**
Net book value at 31 December 2003	16,505,625	7,343,117	1,889,569	1,100,592	26,838,903

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

12. Fixed Assets (Cont'd)

	Company				
	Aircraft and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other fixed assets and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2004	17,922,994	10,956,426	1,347,425	1,392,428	31,619,273
Reclassification upon purchase of aircraft under a finance lease	356,328	(356,328)	–	–	–
Lease rebate upon purchase of aircraft under a finance lease (note a)	(98,921)	–	–	–	(98,921)
Transfer to a subsidiary	(257,407)	–	–	–	(257,407)
Transfers from construction in progress (note 13)	–	–	75,659	13,218	88,877
Transfer from advance (note 18)	535,548	1,079,852	–	–	1,615,400
Additions	1,356,662	2,808,904	20,812	188,199	4,374,577
Disposals	(912,312)	–	(72,901)	(57,072)	(1,042,285)
At 31 December 2004	18,902,892	14,488,854	1,370,995	1,536,773	36,299,514
Accumulated depreciation					
At 1 January 2004	4,687,965	3,613,309	235,517	698,722	9,235,513
Reclassification upon purchase of aircraft under a finance lease	40,746	(40,746)	–	–	–
Transfer to a subsidiary	(40,746)	–	–	–	(40,746)
Charge for the year	1,012,161	583,935	56,878	179,772	1,832,746
Disposals	(283,444)	–	(28,021)	(41,651)	(353,116)
At 31 December 2004	5,416,682	4,156,498	264,374	836,843	10,674,397
Net book value at 31 December 2004	**13,486,210**	**10,332,356**	**1,106,621**	**699,930**	**25,625,117**
Net book value at 31 December 2003	13,235,029	7,343,117	1,111,908	693,706	22,383,760

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12. Fixed Assets (Cont'd)

(a) In January 2004, the Company exercised its right upon settlement and termination of a finance lease arrangement to purchase an aircraft at a consideration equal to the present value of the remaining minimum lease payments on the date of the purchase. As part of the finance lease arrangement, the Company is entitled to receive a rebate in the amount of RMB98,921,000 if it meets certain conditions as defined in the lease arrangement.

All the conditions to receive such rebate had been satisfied and the amount was received in February 2004 and was recognised as an adjustment to the carrying value of the aircraft to which the rebate relates.

(b) On 30 June 2001, the fixed assets were revalued by an independent valuer registered in PRC on a market value basis. The revalued amount were not materially different from the carrying values of these fixed assets. On 31 December 2002, the Group's fixed assets were revalued by the directors of the Company on a market value basis. The difference between the valuation and the carrying amount of the fixed assets as at 31 December 2002 was recognised. On 31 December 2004, the directors of the Company reviewed the carrying value of the Group's fixed assets as at 31 December 2004 and are of the opinion that the carrying amount is not materially different from the fair value.

Had the Group's fixed assets been stated at cost less accumulated depreciation and impairment losses as at 31 December 2004, the carrying amounts of fixed assets would have been RMB30,067,348,000 (2003: RMB26,618,747,000).

(c) Certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB13,032,759,000 were pledged as collateral under certain loan agreements as at 31 December 2004 (2003: RMB9,735,106,000) (see note 26).

13. Construction in Progress

	Group		Company	
	2004 RMB'000	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
At 1 January	**219,788**	413,812	**92,520**	109,785
Additions	**178,065**	249,737	**73,891**	52,439
Transfer to fixed assets (note 12)	**(209,199)**	(443,761)	**(88,877)**	(69,704)
At 31 December	**188,654**	219,788	**77,534**	92,520

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14. Lease Prepayments

Lease prepayments represent unamortised prepayments for land use rights.

The Group's land use rights are located in the PRC and majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2004, majority of these land use rights had remaining terms ranging from 42 to 48 years (2003: from 43 to 49 years).

Certificates of certain land use rights with nil carrying value (2003: nil) of the Group are currently registered under the name of CEA Holding. The procedures to change the registration of the land use rights certificates with the relevant municipal land bureaus are currently being addressed by CEA Holding. Until the completion of these transfer procedures, the Group is unable to assign or pledge these land use rights. However, the Group currently has no need to assign and no intention to pledge these land use rights. In addition, the Group is entitled to lawfully and validly occupy and use these lands for its daily operations in spite of the fact that the procedures of changing the registration of these land use rights have not been fully completed. Accordingly, the directors of the Company do not believe the lack of certificates of certain land use rights has any material impact on the financial position of the Group.

15. Investments in Subsidiaries

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	**2,146,856**	1,600,156
Amounts due from subsidiaries	**614,652**	2,208,459
	2,761,508	3,808,615

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15. Investments in Subsidiaries (Cont'd)

Particulars of the principal subsidiaries, all of which are limited companies established and operating in the PRC, are as follows:–

Company	Place and date of establishment	Paid-up capital 2004 RMB'000	Paid-up capital 2003 RMB'000	Attributable equity interest 2004	Attributable equity interest 2003	Principal activities
China Cargo Airlines Co., Ltd.	PRC 22 July 1998	**500,000**	500,000	**70%**	70%	Provision of cargo carriage services
China Eastern Airlines Jiangsu Co., Ltd.(*)	PRC 3 May 1993	**803,666**	236,579	**63%**	55%	Provision of airline services
Eastern Airlines Hotel Co., Ltd.	PRC 18 March 1998	**70,000**	70,000	**86%**	86%	Provision of hotel services to crew members
Shanghai Eastern Flight Training Co., Ltd.	PRC 18 December 1995	**473,000**	473,000	**95%**	95%	Provision of flight training services
Shanghai Eastern Airlines Investment Co., Ltd.	PRC 8 May 2002	**412,500**	412,500	**99%**	99%	Investment holding
Shanghai Eastern Logistics Co., Ltd. (**)	PRC 23 August 2004	**200,000**	–	**70%**	–	Provision of cargo logistics services

* In 2004, the Company and one of a minority shareholder contributed additional capital of RMB408,100,000 and RMB158,987,000 respectively to the subsidiary. The Company's interest in the subsidiary increased from 55% to 63% because the Company contributed proportionally more than its original ownership interest.

** In 2004, the Company, China Cargo and a minority shareholder contributed capital of RMB138,600,000, RMB2,000,000 and RMB59,400,000 respectively to set up the subsidiary. 69% shareholding are held directly and 1% shareholding are held indirectly by the Company.

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16. Investments in Associates

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investment, at cost	**–**	–	**625,964**	590,601
Share of net assets	**609,130**	572,818	**–**	–
Goodwill	**47,060**	53,266	**–**	–
	656,190	626,084	**625,964**	590,601

	Group	
	2004	2003
	RMB'000	RMB'000
Movement of investments in associates is as follows:–		
At 1 January	**626,084**	331,570
Cost of investments	**35,362**	327,252
Share of results before taxation	**(4,112)**	(28,511)
Share of taxation (note 9(a))	**(1,144)**	(4,227)
At 31 December	**656,190**	626,084

The share of results before taxation includes an amortisation of RMB6,206,000 (2003: RMB6,206,000) for the goodwill in respect of acquisition of associates and a provision of RMB51,200,000 (2003: RMB28,000,000) for a receivable from a shareholder of an associate.

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16. Investments in Associates (Cont'd)

Particulars of the principal associates, all of which are limited companies established and operating in the PRC, are as follows:–

Company	Place and date of establishment	Paid-up capital RMB'000	Attributable equity interest 2004	Attributable equity interest 2003	Principal activities
China Eastern Airlines Wuhan Co., Ltd.	PRC 16 August 2002	600,000	**40%**	40%	Provision of air transportation services
Eastern Air Group Finance Co., Ltd.	PRC 6 December 1995	400,000	**25%**	25%	Provision of financial services to companies comprising CEA Holding
Eastern Aviation Advertising Services Co., Ltd.	PRC 4 March 1986	10,000	**45%**	45%	Provision of aviation advertising agency services
China Eastern Air Catering Investment Co., Ltd.	PRC 17 November 2003	350,000	**45%**	45%	Provision of air catering services
Eastern Aviation Import & Export Co., Ltd.	PRC 9 June 1993	80,000	**45%**	45%	Provision of aviation equipment, spare parts and tools trading
Shanghai Dongmei Aviation Travel Co., Ltd.	PRC 17 October 2003	31,000	**45%**	45%	Provision of travelling and accommodation agency services
Qingdao Liuting International Airport Co., Ltd	PRC 1 December 2000	450,000	**25%**	25%	Provision of airport operation services

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17. Goodwill and Negative Goodwill

	Group and Company		
	Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
Cost			
At 1 January 2004 and 31 December 2004	113,105	(55,245)	57,860
Accumulated amortisation			
At 1 January 2004	28,275	(8,920)	19,355
Charge for the year	5,654	(3,452)	2,202
At 31 December 2004	33,929	(12,372)	21,557
Net book value			
At 31 December 2004	79,176	(42,873)	36,303
At 31 December 2003	84,830	(46,325)	38,505

18. Advances on Aircraft and Flight Equipment

	Group and Company	
	2004 RMB'000	2003 RMB'000
At 1 January	**2,239,893**	3,227,720
Additions	**1,996,990**	1,198,242
Interest capitalised during the year (note 6)	**57,120**	97,414
Transfers to fixed assets (note 12)	**(1,615,400)**	(2,283,483)
At 31 December	**2,678,603**	2,239,893

Included in the balance as at 31 December 2004 is interest capitalised of RMB160,016,000 (2003: RMB130,965,000).

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19. Other Long-term Receivables and Investments

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long-term bank deposits (note 25)	**1,908,398**	1,743,924	**1,908,398**	1,743,924
Deposits for aircraft under operating leases	**133,159**	110,812	**133,159**	90,339
Prepaid custom duty and value added tax	**21,083**	37,410	**21,083**	37,410
Prepayments and other long-term receivables	**139,966**	70,216	**118,941**	53,875
	2,202,606	1,962,362	**2,181,581**	1,925,548

20. Trade Receivables Less Allowance for Doubtful Accounts

The credit terms given to trade customers are determined on an individual basis, with the credit period ranging from half a month to three months.

As at 31 December 2004, the aging analysis of the trade receivables are as follows:–

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than 31 days	**1,077,804**	853,303	**738,246**	564,870
31 to 60 days	**216,236**	348,159	**95,537**	221,498
61 to 90 days	**68,845**	28,094	**43,910**	968
Over 90 days	**99,787**	96,121	**49,400**	58,168
	1,462,672	1,325,677	**927,093**	845,504

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2004

21. Prepayments, Deposits and Other Receivables

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from related companies (note 38(a)(i))	**122,253**	45,389	**116,001**	35,785
Receivables from provision of ground services	**243,890**	111,129	**243,890**	111,129
Receivables from provision of cargo handling services	**118,446**	70,022	**–**	–
Prepaid aircraft operating lease rentals	**115,456**	95,959	**101,358**	79,340
Short-term deposits with original maturity over three months	**77,446**	108,870	**12,721**	7,441
Discounts on aircraft acquisitions receivable	**31,136**	29,814	**31,136**	29,814
US Treasury zero coupon bonds	**–**	585,736	**–**	585,736
Others	**400,337**	324,124	**314,888**	273,266
	1,108,964	1,371,043	**819,994**	1,122,511

22. Trade Payables and Notes Payables

As at 31 December 2004 and 2003, all trade payables were current balances and aged within 30 days.

As at 31 December 2004, all notes payables were unsecured, interest free and repayable in six months.

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23. Other Payables and Accrued Expenses

	Group		Company	
	2004 RMB'000	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
Amounts due to related companies (note 38(a)(i))	**138,968**	771,643	**164,216**	739,427
Accrued fuel cost	**1,290,038**	697,652	**1,136,343**	603,381
Accrued take-off and landing charges	**749,458**	703,994	**629,948**	540,298
Current portion of accrued aircraft overhaul expenses (note 24)	**539,249**	385,168	**464,268**	377,224
Other accrued operating expenses	**427,294**	603,260	**290,727**	492,295
Accrued salaries, wages and benefits	**333,910**	138,954	**286,467**	119,117
Flight equipment purchase payable	**289,232**	147,775	**281,001**	141,920
Airport construction levy payable	**243,295**	–	**243,295**	–
Levies collected from ticket sales on behalf of overseas tax authorities	**218,915**	82,862	**218,915**	82,862
Duties and levies payable	**188,627**	10,049	**150,178**	–
Airport expenses related to provision of ground services	**98,162**	42,320	**98,162**	42,320
Current portion of provision for staff housing allowances (note 34 (b))	**93,427**	85,973	**85,387**	78,771
Current portion of long-term payables (note 31)	**30,000**	30,000	**30,000**	30,000
Current portion of post-retirement benefit obligations (note 33(b)(i))	**27,500**	19,750	**25,771**	18,635
Amounts due to minority shareholders	**–**	156,308	**–**	–
Others	**685,574**	424,281	**580,920**	339,670
	5,353,649	4,299,989	**4,685,598**	3,605,920

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24. Accrued Aircraft Overhaul Expenses

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January 2004	**576,552**	547,813	**515,534**	441,863
Additional provisions	**244,625**	123,213	**175,314**	121,839
Over provision	**(20,814)**	(59,456)	**(20,814)**	(26,860)
Utilised during the year	**(85,154)**	(35,018)	**(72,755)**	(21,308)
At 31 December 2004	**715,209**	576,552	**597,279**	515,534
Less: current portion (note 23)	**(539,249)**	(385,168)	**(464,268)**	(377,224)
Long-term portion	**175,960**	191,384	**133,011**	138,310

Accrued aircraft overhaul expenses represent present value of estimated costs of major overhauls for aircraft and engines under operating lease as the Group has the responsibility to fulfill certain return conditions under relevant leases.

25. Obligations under Finance Leases

At 31 December 2004, the Group and the Company had 22 aircraft (2003: 18 aircraft) under finance leases. Under the terms of the leases, the Group and the Company has the option to purchase, at or near the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessor's defined cost of the aircraft.

The future minimum lease payments, interest and present value of minimum lease payments which are principally denominated in foreign currencies, under these finance leases as at 31 December 2004 are as follows:–

	Group and Company					
	2004			2003		
	Minimum lease payments RMB'000	**Interest RMB'000**	**Present value of minimum lease payments RMB'000**	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	**1,526,981**	**337,333**	**1,189,648**	2,049,079	356,995	1,692,084
In the second year	**1,962,208**	**262,372**	**1,699,836**	1,242,950	256,355	986,595
In the third to fifth year inclusive	**3,924,600**	**168,346**	**3,756,254**	4,361,682	322,316	4,039,366
After the fifth year	**2,401,578**	**385,030**	**2,016,548**	408,853	26,012	382,841
Total	**9,815,367**	**1,153,081**	**8,662,286**	8,062,564	961,678	7,100,886
Less: amount repayable within one year	**(1,526,981)**	**(337,333)**	**(1,189,648)**	(2,049,079)	(356,995)	(1,692,084)
Long-term portion	**8,288,386**	**815,748**	**7,472,638**	6,013,485	604,683	5,408,802

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25. Obligations under Finance Leases (Cont'd)

At 31 December 2004, the Group and the Company had long-term bank deposits totalling RMB1,908,398,000 (2003: long-term bank deposits and U.S. Treasury zero coupon bonds totalling RMB2,329,660,000) pledged as securities under certain finance lease arrangements (see note 19). All of these bank deposits will be used to meet future lease obligations as they fall due.

In addition, the Group's finance lease obligations are secured by the related aircraft, the relevant insurance policies and bank guarantees.

26. Long-term Bank Loans

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**5,912,958**	6,495,507	**5,912,958**	6,495,507
– unsecured	**4,823,302**	4,727,416	**4,792,679**	4,727,416
Total	**10,736,260**	11,222,923	**10,705,637**	11,222,923
Less: amount repayable within one year	**(3,193,432)**	(2,250,734)	**(3,185,156)**	(2,250,734)
Long-term portion	**7,542,828**	8,972,189	**7,520,481**	8,972,189
The bank loans are repayable as follows:–				
Within one year	**3,193,432**	2,250,734	**3,185,156**	2,250,734
In the second year	**2,386,862**	2,438,574	**2,370,309**	2,438,574
In the third to fifth year inclusive	**3,216,181**	4,163,578	**3,210,387**	4,163,578
After the fifth year	**1,939,785**	2,370,037	**1,939,785**	2,370,037
Total	**10,736,260**	11,222,923	**10,705,637**	11,222,923

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26. Long-term Bank Loans (Cont'd)

The terms of long-term bank loans can be summarised as follows:–

	Interest rate and final maturities	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000	Company 2003 RMB'000
RMB denominated bank loans:–					
Loans for working capital	Fixed interests rates ranging from 4.94% to 5.76% per annum as at 31 December 2004; 3-year loans with final maturity through to 2007.	**1,710,100**	1,306,700	**1,710,100**	1,306,700
Loans for the purchases of aircraft	Fixed interest rate of 5.18% per annum as at 31 December 2004; 2 to 8-year loans with final maturity through to 2012	**880,000**	–	**880,000**	–
Loans for construction projects	Fixed interest rate of 5.76% per annum as at 31 December 2004; 7 to 10-year loans with final maturities through to 2007	**412,500**	637,500	**412,500**	637,500
U.S. dollar denominated bank loans:–					
Loans for the purchases of aircraft	Fixed interest rates ranging from 5.65% to 6.86% per annum and floating interest rates ranging from 3 months LIBOR +0.25% to 6 months LIBOR +0.3% as at 31 December 2004; 2 to 10-year loans with final maturities through to 2013	**7,703,037**	9,278,723	**7,703,037**	9,278,723
Loan for the purchase of an aircraft simulator	Floating interest rates of 6 months LIBOR +0.6% as at 31 December 2004; 3-year loans with final maturity in 2007	**30,623**	–	**–**	–
Total long-term bank loans		**10,736,260**	11,222,923	**10,705,637**	11,222,923

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26. Long-term Bank Loans (Cont'd)

All secured bank loans as at 31 December 2004 and 2003 of the Group and the Company for the purchases of aircraft were secured by the related aircraft (note 12(b)). In addition, certain secured bank loans with aggregate amount of RMB1,162,186,000 (2003: RMB1,456,320,000) were also guaranteed by Export-Import Bank of the United States, China Industrial and Commercial Bank and China Construction Bank.

Certain unsecured bank loans of the Group and the Company with aggregate amount of RMB2,122,600,000 (2003: RMB1,944,200,000) were guaranteed by CEA Holding (note 38(b)).

27. Short-term Bank Loans

Short-term bank loans of the Group and the Company are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to such loans were between 2.22% and 5.04% per annum (2003: 2.06% and 5.04% per annum). During the year ended 31 December 2004, the weighted average interest rate on short-term bank loans was 3.81% per annum (2003: 3.34% per annum).

28. Share Capital

	2004 **RMB'000**	2003 RMB'000
Registered, issued and fully paid of RMB1.00 each A shares		
State-owned shares held by CEA Holding	**3,000,000**	3,000,000
Shares held by public	**300,000**	300,000
	3,300,000	3,300,000
Overseas listed foreign H shares	**1,566,950**	1,566,950
	4,866,950	4,866,950

Pursuant to articles 49 and 50 of the Company's Articles of Association, the A shares held by CEA Holding, employees, the public and H shares are all registered ordinary shares, carrying equal rights.

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29. Reserves

	Share premium	Statutory common reserve fund (note (b))	Statutory common welfare fund (note (c))	Discretionary common reserve fund (note (d))	Revaluation reserve	Capital reserve	Hedging reserve (note 40)	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group									
At 1 January 2004	1,006,455	143,498	142,548	27,989	490,688	(720,057)	(77,879)	501,959	1,515,201
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(7,610)	–	(7,610)
– tax	–	–	–	–	–	–	1,141	–	1,141
Realised gains on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(8,839)	–	(8,839)
– tax	–	–	–	–	–	–	1,326	–	1,326
Profit attributable to shareholders	–	–	–	–	–	–	–	514,075	514,075
Transfer from retained profits to reserves (note (a))	–	35,299	31,837	–	–	–	–	(67,136)	–
At 31 December 2004	1,006,455	178,797	174,385	27,989	490,688	(720,057)	(91,861)	948,898	2,015,294
Company									
At 1 January 2004	1,006,455	77,214	77,214	27,908	448,859	(720,057)	(77,879)	131,249	970,963
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(7,610)	–	(7,610)
– tax	–	–	–	–	–	–	1,141	–	1,141
Realised gains on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(8,839)	–	(8,839)
– tax	–	–	–	–	–	–	1,326	–	1,326
Release of reserves upon disposals of aircraft, net of tax	–	–	–	–	(13,782)	–	–	13,782	–
Profit for the year	–	–	–	–	–	–	–	393,291	393,291
At 31 December 2004	1,006,455	77,214	77,214	27,908	435,077	(720,057)	(91,861)	538,322	1,350,272

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29. Reserves (Cont'd)

	Share premium RMB'000	Statutory common reserve fund (note (b)) RMB'000	Statutory common welfare fund (note (c)) RMB'000	Discretionary common reserve fund (note (d)) RMB'000	Revaluation reserve RMB'000	Capital reserve RMB'000	Hedging reserve (note 40) RMB'000	Retained profits RMB'000	Total RMB'000
Group									
At 1 January 2003	1,006,455	106,809	106,727	27,989	504,957	(720,057)	(28,225)	1,507,498	2,512,153
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(71,573)	–	(71,573)
– tax	–	–	–	–	–	–	10,736	–	10,736
Realised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	13,156	–	13,156
– tax	–	–	–	–	–	–	(1,973)	–	(1,973)
Release of reserves upon disposals of aircraft									
– gross	–	–	–	–	(16,787)	–	–	16,787	–
– tax	–	–	–	–	2,518	–	–	–	2,518
Loss attributable to shareholders	–	–	–	–	–	–	–	(949,816)	(949,816)
Transfer from retained profits to reserves (note (a))	–	36,689	35,821	–	–	–	–	(72,510)	–
At 31 December 2003	1,006,455	143,498	142,548	27,989	490,688	(720,057)	(77,879)	501,959	1,515,201
Company									
At 1 January 2003	1,006,455	77,214	77,214	27,908	517,549	(720,057)	(28,225)	1,297,904	2,255,962
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(71,573)	–	(71,573)
– tax	–	–	–	–	–	–	10,736	–	10,736
Realised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	13,156	–	13,156
– tax	–	–	–	–	–	–	(1,973)	–	(1,973)
Release of reserves upon disposals of aircraft									
– gross	–	–	–	–	(80,812)	–	–	80,812	–
– tax	–	–	–	–	12,122	–	–	–	12,122
Loss for the year	–	–	–	–	–	–	–	(1,247,467)	(1,247,467)
At 31 December 2003	1,006,455	77,214	77,214	27,908	448,859	(720,057)	(77,879)	131,249	970,963

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29. Reserves (Cont'd)

(a) For the year ended 31 December 2004, under the PRC Accounting Regulations, the profit for the year of the Company is used to offset the loss incurred in 2003. Accordingly, no profit appropriation of the Company to reserves has been made for the year ended 31 December 2004 (2003: nil). Transfer from retained profits to reserves for the year represents the profit appropriation to reserves of certain subsidiaries of the Company.

(b) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital.

Statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(c) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit for the year, as determined under the PRC Accounting Regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

(d) The Company is allowed to transfer 5% of the profit for the year as determined under the PRC Accounting Regulations, to discretionary common reserve fund. The transfer to this reserve is subject to the approval by shareholder's meetings.

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30. Deferred Taxation

As at 31 December 2004, the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) were made up of taxation effects of the followings:–

	2004			2003		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Group						
Deferred tax assets:–						
Tax losses carried forward	–	349,562	349,562	–	312,916	312,916
Provision for obsolete flight equipment and spare parts	–	54,014	54,014	–	41,960	41,960
Repair cost on flight equipment	–	119,039	119,039	–	160,541	160,541
Provision for post-retirement benefits	4,192	91,060	95,252	2,999	86,734	89,733
Other accrued expenses	104,493	16,211	120,704	108,518	13,744	122,262
	108,685	629,886	738,571	111,517	615,895	727,412
Less: unrecognised assets	–	(252,120)	(252,120)	–	(258,515)	(258,515)
	108,685	377,766	486,451	111,517	357,380	468,897
Deferred tax liabilities:–						
Provision for overhaul	–	(106,128)	(106,128)	–	(103,853)	(103,853)
Depreciation and amortisation	–	(737,775)	(737,775)	–	(705,385)	(705,385)
	–	(843,903)	(843,903)	–	(809,238)	(809,238)
Deferred tax assets/(liabilities), net	108,685	(466,137)	(357,452)	111,517	(451,858)	(340,341)
Company						
Deferred tax assets:–						
Tax losses carried forward	–	349,562	349,562	–	312,916	312,916
Provision for obsolete flight equipment and spare parts	–	53,108	53,108	–	43,660	43,660
Repair cost on flight equipment	–	120,071	120,071	–	161,573	161,573
Provision for post-retirement benefits	3,866	78,161	82,027	2,795	77,900	80,695
Other accrued expenses	66,838	16,211	83,049	64,371	13,744	78,115
	70,704	617,113	687,817	67,166	609,793	676,959
Less: unrecognised assets	–	(252,120)	(252,120)	–	(258,515)	(258,515)
	70,704	364,993	435,697	67,166	351,278	418,444
Deferred tax liabilities:–						
Provision for overhaul	–	(60,619)	(60,619)	–	(60,441)	(60,441)
Depreciation and amortisation	–	(715,481)	(715,481)	–	(672,639)	(672,639)
	–	(776,100)	(776,100)	–	(733,080)	(733,080)
Deferred tax assets/(liabilities), net	70,704	(411,107)	(340,403)	67,166	(381,802)	(314,636)

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30. Deferred Taxation (Cont'd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Company	
	2004 RMB'000	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
Deferred tax assets	**395,465**	399,771	**344,711**	349,318
Deferred tax liabilities	**(752,917)**	(740,112)	**(685,114)**	(663,954)
	(357,452)	(340,341)	**(340,403)**	(314,636)

In accordance with PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. As at 31 December 2004, the Company had tax losses carried forward of approximately RMB2,330 million (2003: RMB2,086 million) which will expire between 2006 and 2009, available to set off against the Company's future taxable income. For the year ended 31 December 2004, the Company did not recognise RMB252,120,000 (2003: RMB258,515,000) of deferred tax asset arising from the tax losses available as management believe it was more likely than not that such tax losses would not be realised before they expire.

Movement in net deferred taxation liability is as follows:–

	Group		Company	
	2004 RMB'000	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
At 1 January	**340,341**	232,825	**314,636**	217,941
Charged/(credited) to income statement	**19,578**	118,797	**28,234**	117,580
Charged/(credited) to equity				
– revaluation reserves	**–**	(2,518)	**–**	(12,122)
– unrecognised losses on cashflow hedges	**(2,467)**	(8,763)	**(2,467)**	(8,763)
At 31 December	**357,452**	340,341	**340,403**	314,636

31. Long-term Portion of Other Payable

	Group and Company	
	2004	2003
	RMB'000	RMB'000
At 1 January	**151,860**	172,250
Less: instalments paid during the year	**(30,000)**	(30,000)
	121,860	142,250
Interest accrued during the year (note 6)	**8,344**	9,610
At 31 December	**130,204**	151,860
Less: Current portion (note 23)	**(30,000)**	(30,000)
Long-term portion	**100,204**	121,860

Balance is unsecured, accrue interest at an effective rate of 6.21% and is repayable by annual instalment of RMB30 million (before taking into account of time value) up to year 2009.

32. Minority Interests

	Group	
	2004	2003
	RMB'000	RMB'000
At 1 January	**522,713**	404,517
Contributions from minority shareholders	**218,387**	5,765
Dividends paid to minority shareholders	**(60,000)**	–
Share of profits of subsidiaries	**150,108**	112,431
At 31 December	**831,208**	522,713

33. Retirement Benefit Plans and Post-Retirement Benefits

(a) Defined contribution retirement schemes

(i) Pension

Substantially all of the Group employees are eligible to participate in the Group's retirement schemes. The Group participates in defined contribution retirement schemes organised by the municipal governments of the various provinces in which the Group operates. The Group is required to make annual contributions to the schemes at rates ranging from 20% to 22% of salary costs including certain allowances calculated in the prior year. Employees contribute at rates ranging from 7% to 8% of their basic salaries. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2004, the Group's pension cost charged to the income statement amounted to RMB146,500,000 (2003: RMB121,200,000).

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33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

(a) Defined contribution retirement schemes (Cont'd)

(ii) Medical insurance

In 1998, the State Council announced that each municipal government should introduce a medical insurance scheme for employees and retirees of all enterprises, of which the detailed policies and regulations were to be set out by individual municipal government.

In the end of 2000, the Shanghai Municipal Government promulgated the detailed policies and regulations of its medical insurance scheme. In January 2001, the Group joined this scheme under which the Group and its employees contribute approximately 12% and 2% of the employee's basic salaries to the scheme respectively. The Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2004, the Group's medical insurance contribution charged to the income statement amounted to RMB76,288,000 (2003: RMB65,012,000).

(b) Post retirement benefits

In addition to the above retirement schemes, the Group provides retirees with post-retirement benefits including transportation subsidies, social function activities subsidies 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 the rate of inflation, discount rate and employees' turnover ratio.

(i) As at 31 December 2004, the post-retirement benefit obligations recognised in the balance sheets of the Group and the Company were as follows:–

	Group		Company	
	2004 RMB'000	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
Present value of unfunded post-retirement benefit obligations	**538,428**	514,351	**462,997**	440,362
Unrecognised actuarial gains	**51,704**	51,170	**34,948**	48,702
Post-retirement benefit obligations	**590,132**	565,521	**497,945**	489,064
Less: current portion (note 23)	**(27,500)**	(19,750)	**(25,771)**	(18,635)
Post-retirement benefit obligations – long-term portion	**562,632**	545,771	**472,174**	470,429

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33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

(b) Post retirement benefits (Cont'd)

(ii) Changes in post-retirement benefit obligations are as follows:–

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**565,521**	544,677	**489,064**	466,068
Current service cost	**20,849**	13,064	**17,497**	11,262
Interest on obligation	**29,857**	27,235	**25,058**	23,474
Actuarial loss recognised	**998**	–	**998**	–
Payment made in the year	**(27,093)**	(19,455)	**(26,067)**	(18,712)
Transfer (to)/from subsidiaries	**–**	–	**(8,605)**	6,972
At 31 December	**590,132**	565,521	**497,945**	489,064

(iii) The costs of post-retirement benefits were recognised under wages, salaries and benefits in the consolidated income statement for the year as follows:–

	Group	
	2004	2003
	RMB'000	RMB'000
Current service cost	**20,849**	13,064
Interest on obligation	**29,857**	27,235
Actuarial loss recognised	**998**	–
Total (note 5)	**51,704**	40,299

(iv) Principal actuarial assumptions at the balance sheet date are as follows:–

	Group	
	2004	2003
	RMB'000	RMB'000
Discount rate	**5.00%**	5.00%
Annual rate of increase of per capita benefit payment	**1.50%**	1.50%
Employees turnover rate	**3.00%**	3.00%

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34. Staff Housing Benefits

(a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contribution to the State-sponsored housing fund at a range from 1% to 15% (2003: 1% to 15%) of the specified salary amount of its PRC employees. At the same time, the employees are required to make contribution equal to the Group's contribution out of their salaries. The employees are entitled to claim the entire sum of the fund contribution under certain specified withdrawal circumstances. For the year ended 31 December 2004, the Group's contributions to the housing funds amounted to RMB94,200,000 (2003: RMB65,300,000) which is charged to the income statement.

(b) Staff housing allowances

Upon the issuance of the government circulars in 2000, the Company's directors estimated a provision of approximately RMB80,179,000 for staff housing allowance payable to eligible employees who joined in the Group prior to 1998 with reference to staff housing policies already set out by certain provincial governments then. Such provision for staff housing benefits is included in other payables in the Group's consolidated balance sheet as at 31 December 2002.

In October 2003, the Board of directors approved a new staff housing policy (the "New Staff Housing Policy") which is extended to cover all existing staff who have not been allocated sufficient housing quarters. The benefit level given to the staff under the New Staff Housing Policy is generally higher as compared to the policies to which the Company's directors made reference in 2000.

Under the New Staff Housing Policy, staff who have not been allocated with any housing quarters or who have not been allocated with a quarter up to the minimum area as set out in the New Staff Housing Policy are entitled to a cash allowance. An eligible staff's entitlement is calculated based on area of quarter entitled and the unit price as set out in the New Staff Housing Policy. The total entitlement is principally vested over a period of 20 years. Upon an employee's resignation, his or her entitlement will cease and any unpaid entitlement related to past services will be paid. Upon the establishment of the New Staff Housing Policy, employees are entitled to a portion of the total entitlement already accrued based on his or her past service period. Such entitlement will be paid over a period of 4 to 5 years. The Group recognised a provision of RMB 340,642,000 as related to its present obligation for its employee's staff housing entitlements, RMB 85,973,000 of which is classified as current portion in other payables in the Group's consolidated balance sheet as at 31 December 2003 (note 23). The incremental obligation of RMB 260,463,000 for staff housing benefits as a result of the New Staff Housing Policy was charged to the 2003's income statement.

For the year ended 31 December 2004, the staff housing benefit provided under the New Staff Housing Policy amounted to RMB29,253,000 and is charged to the income statement.

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35. Supplementary information to the Consolidated Cashflow Statement

	2004 RMB'000	2003 RMB'000
Investing activities not affecting cash:–		
Discounts on aircraft acquisition used for purchases of flight equipment and spare parts	–	50,220
Financing activities not affecting cash:–		
Finance lease obligations incurred for acquisition of aircraft	3,177,225	–

36. Commitments and Contingent Liabilities

(a) Capital commitments

As at 31 December 2004, the Group and the Company had the following capital commitments:–

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Authorised and contracted for:–				
– Aircraft and related equipment	8,791,472	7,668,801	8,791,472	7,668,801
– Other	437,574	358,415	406,494	358,415
	9,229,046	8,027,216	9,197,966	8,027,216
Authorised but not contracted for:–				
– Aircraft and related equipment	3,533,000	723,000	1,900,000	–
– Additional investment in subsidiaries	–	–	–	992,183
– Other	2,381,710	1,122,526	2,117,727	1,054,650
	5,914,710	1,845,526	4,017,727	2,046,833
	15,143,756	9,872,742	13,215,693	10,074,049

The above commitments mainly include amounts for acquisition of five A320, two A321, twenty A330, six B737, five A319 and five ERJ145 aircraft (2003: ten A320, two A340, four A321 aircraft and two A340 engines) for delivery between 2005 and 2008 (2003: between 2004 and 2005).

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36. Commitments and Contingent Liabilities (Cont'd)

(a) Capital commitments (Cont'd)

Contracted expenditures for the above aircraft and related equipment, including deposits prior to delivery, subject to an inflation increase built in the contracts and any discounts available upon delivery of the aircraft, were expected to be paid as follows:–

	Group and Company 2004 RMB'000
2005	**6,945,235**
2006	**1,350,420**
2007	**495,817**
	8,791,472

(b) Operating lease commitments

As at 31 December 2004, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:–

	2004		2003	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Group				
Within one year	**1,024,857**	**19,287**	1,063,619	49,532
In the second year	**1,095,792**	**14,874**	1,134,669	12,284
In the third to fifth year inclusive	**3,094,495**	**25,401**	2,735,477	24,413
After the fifth year	**550,310**	**22,139**	1,145,355	11,206
	5,765,454	**81,701**	6,079,120	97,435
Company				
Within one year	**831,187**	**19,207**	869,944	45,343
In the second year	**902,122**	**14,794**	940,995	12,175
In the third to fifth year inclusive	**2,397,661**	**25,379**	1,910,171	24,313
After the fifth year	**550,310**	**22,139**	1,080,134	11,206
	4,681,280	**81,519**	4,801,244	93,037

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37. Segmental Reporting

(a) Primary reporting format by business segment

The Group operates in one business segment which is the common carriage of passengers, cargo and mail over various routes authorised by CAAC.

(b) Secondary reporting format by geographical segment

The Group's turnover and segment results by geographical segments is analysed as follows:–

	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries(*) RMB'000	Total RMB'000
2004					
Traffic revenues					
– Passenger	**8,283,701**	**2,186,810**	**1,466,070**	**3,421,033**	**15,357,614**
– Cargo and mail	**298,846**	**592,008**	**647,181**	**2,890,325**	**4,428,360**
	8,582,547	**2,778,818**	**2,113,251**	**6,311,358**	**19,785,974**
Other operating revenues	**1,163,205**	**22,223**	**16,900**	**50,474**	**1,252,802**
Turnover	**9,745,752**	**2,801,041**	**2,130,151**	**6,361,832**	**21,038,776**
Segment results	**226,803**	**388,497**	**238,192**	**471,263**	**1,324,755**
Unallocated income (note 4)					**154,422**
Operating profit					**1,479,177**
2003					
Traffic revenues					
– Passenger	5,591,640	1,627,093	977,610	2,064,684	10,261,027
– Cargo and mail	279,003	390,088	588,361	1,929,532	3,186,984
	5,870,643	2,017,181	1,565,971	3,994,216	13,448,011
Other operating revenues	788,811	10,738	8,336	21,262	829,147
Turnover	6,659,454	2,027,919	1,574,307	4,015,478	14,277,158
Segment results	(576,838)	224,683	190,042	322,686	160,573
Unallocated income (note 4)					60,890
Operating profit					221,463

(*) include U.S., Europe and other Asian countries

The major revenue-earning assets of the Group are its aircraft fleet, all of which are registered in the PRC. Since the Group's aircraft fleet is deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments and hence segment assets and capital expenditure by segment has not been presented.

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38. Related Party Transactions

(a) Balances with related companies

(i) Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries arising from trading activities are unsecured, interest free and with no fixed terms of repayment. As at 31 December 2004, such balances mainly included the following:–

China Eastern Air Northwest Company ("CEA Northwest")

Amount of RMB118,433,000 (2003: RMB217,680,000) due from CEA Northwest comprised amount of air tickets sold by CEA but uplift by CEA Northwest and operating lease rental charges for aircraft.

China Eastern Air Yunnan Company ("CEA Yunnan")

Amount of RMB42,087,000 due to CEA Yunnan (2003: amount due from CEA Yunnan RMB65,648,000) comprised amount of air tickets sold by CEA but uplift by CEA Yunnan and operating lease rental charges for aircraft.

Nanjing Airlines Co., Ltd. ("Nanjing Airlines")

Amount of RMB44,370,000 (2003: RMB15,535,000) due from Nanjing Airlines comprised operating lease rental charges for aircraft.

(ii) Amounts due from/to associates

China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan Airlines")

Amount of RMB19,063,000 (2003: RMB36,099,000) due to CEA Wuhan Airlines comprised amount of air tickets sold by CEA but uplift by CEA Wuhan Airlines and operating lease rental income for operating lease of aircraft.

Eastern Aviation Import & Export Co., Ltd. ("EAIEC")

Amount of RMB47,093,000 (2003: RMB509,249,000) due to EAIEC comprised prepayments and purchases of flight equipment and flight equipment spare parts payable to EAIEC.

Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC")

Amount of RMB39,485,000 (2003: RMB24,940,000) due from SDATC represented amount of tickets sold by SDATC.

(iii) Short-term deposits with an associate

The Group and the Company have short-term deposits of RMB413,870,000 and RMB43,207,000 (2003: RMB214,241,000 and RMB88,124,000) respectively placed with Eastern Air Group Finance Co., Ltd. ("EAGF"), an associate. The short-term deposits yield interest at an average rate of 0.72% per annum (2003: 0.72% per annum).

38. Related Party Transactions (Cont'd)

(a) Balances with related companies (Cont'd)

(iv) Short-term loans from an associate

The Group and the Company have short-term loans of RMB140,765,000 and RMB132,765,000 (2003: RMB860,000,000 and RMB830,000,000) respectively from EAGF. During the year ended 31 December 2004, the weighted average interest rate on the loan was 4.5% per annum (2003: 4.54% per annum).

(b) Guarantee by the holding company

As at 31 December 2004, unsecured long-term bank loans of the Group and the Company with aggregate amount of RMB2,122,600,000 (2003: RMB1,944,200,000) are guaranteed by CEA Holding (note 26).

(c) Related party transactions

Except as disclosed in note 8 of the financial statement, the Group had the following material transactions with its related parties during the year ended 31 December 2004, which were, in the opinion of the directors, carried out in the normal course of business:–

(i) Sublease arrangement with CEA Northwest

During the year ended 31 December 2004, the Company entered into operating lease agreements with two third-party lessors to lease six A320 aircraft. These aircraft were operated by CEA Northwest from the effective date of the relevant lease to the date of agreement being modified (refer below for details). No agreements were entered into between the Company and CEA Northwest regarding the arrangement, nor written consents obtained from the lessors for the operation of the six A320 by CEA Northwest. Under the lease arrangement, the Company is liable to the lessors for all obligations under the lease agreement. Upon the Board of Directors being notified of the arrangement in August 2004, it appropriately took action and the Company entered into agreements in December 2004 and April 2005 with the third-party lessors, CEA Northwest, and the relevant leasing company to modify the original lease agreement (the "Novation and Amendment Agreements") to completely relieve the Company of the lease obligations for the lease arrangements. From the inception of the lease to the effective date of the Novation and Amendment Agreements, the Company charged CEA Northwest the same amount it paid to the third-party lessors for use of the six A320 aircraft.

Under the Novation and Amendment Agreements, the Company was relieved from all obligations related to the original lease arrangements from the inception of the lease and CEA Northwest will become the sole lessee to the amended lease agreements. During 2004, prior to the execution of the Novation and Amendment Agreements, the Company account for the arrangement as a sublease, the lease income of RMB83,241,000 from CEA Northwest are recorded as other operating income, and the same amount paid to the third-party lessors as lease expense.

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38. Related Party Transactions (Cont'd)

(c) Related party transactions (Cont'd)

(ii) Rescission of lease arrangements with fellow subsidiaries

During the year ended 31 December 2004, the Group entered into certain lease arrangements to lease aircraft from fellow subsidiaries to operate on certain of the Company's air routes. In connection with the lease arrangements, the Company operated the aircraft, recognising traffic revenue and expenses, relating to payments to independent third parties for fuel, take-off and landing fees, and other costs related to the operation of those aircraft.

Under PRC Company Law and applicable stock exchange listing rules, certain related party transactions meeting specified thresholds, including lease transactions, require prior approval by the Board of Directors, including the independent directors. Certain of the lease arrangements to lease three A310 aircraft from CEA Northwest and three Bae146 aircraft from Nanjing Airlines, a subsidiary of CEA Northwest, (collectively, the "Leased Aircraft") in 2004 had not been properly authorised and approved in advance by the Board of Directors. Accordingly, as such lease arrangements were not properly approved in advance, the Board of Directors resolved in August and December 2004 to terminate the lease arrangements, and agreement was reached with CEA Northwest to terminate such arrangements. In connection with the termination of the lease arrangements, the Company and CEA Northwest agreed to retroactively rescind the transactions from the inception of the lease arrangements as permitted under PRC laws. The Company has been advised by its external PRC counsel that under PRC law, a transaction can be rendered invalid from inception upon agreement by all parties. However, under IFRS, because the Group actually operated the Leased Aircraft in its normal business operations during the period from the inception to rescission of the lease, the air traffic revenue of RMB440,864,000 and related operating costs of RMB573,893,000 (including the lease charges of RMB192,098,000 and RMB44,695,000 payable to CEA Northwest and Nanjing Airlines respectively) have been recognised in the financial statements of the Company. The impact of the retroactive rescission of the CEA Northwest lease arrangements was for CEA Northwest and Nanjing Airlines to waive amounts owed by the Group totaling RMB133,029,000 (the "Settlement Amount"), which represents the operating losses incurred on the operation of the Leased Aircraft during 2004. The Settlement Amount was in effect an extinguishment of a financial liability through a reduction of the Group's inter-company payable account with CEA Northwest or Nanjing Airlines, as applicable. The Settlement Amount was recognised as non-operating income for the year ended 31 December 2004 due to its nature being that of a financing transaction. The action of the Board of Directors to disapprove and retroactively rescind such arrangement, with consent from CEA Northwest or Nanjing, was to ensure that the Group's financial position being restored to what it would have been had the lease arrangements never been entered into.

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38. Related Party Transactions (Cont'd)

(a) Balances with related companies (Cont'd)

(iii) In addition to the transaction disclosed above, the Group had the following transactions, with its related parties during the year ended 31 December, 2004:-

Nature of transaction	Related party	Income/ (Expenses, payments or purchase consideration) 2004 RMB'000	2003 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:–			
Interest income on deposits at rates of 0.72% per annum (2003: 0.72% per annum)	EAGF	**4,897**	4,096
Interest expenses on loans at rates of 4.5% per annum (2003: 4.54% per annum)	EAGF	**(1,150)**	(6,396)
Commission income on carriage service provided by other airlines with air tickets sold by the Group at fixed rates ranging from 3% to 9% of value of tickets sold	– CEA Northwest	**93,062**	51,667
	– CEA Yunnan	**81,517**	50,442
	– CEA Wuhan Airlines	**32,396**	28,964

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38. Related Party Transactions (Cont'd)

(c) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (Expenses, payments or purchase consideration) 2004 RMB'000	2003 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding (Cont'd):–			
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	– Shanghai Tourism Company (Hong Kong) Limited	**(13,201)**	(6,046)
	– CEA Northwest	**(14,181)**	(17,776)
	– CEA Yunnan	**(22,494)**	(10,743)
	– Certain other subsidiaries of CEA Holding	**(19,402)**	(25,466)
	– CEA Wuhan Airlines	**(32,396)**	(8,547)
	– SDATC	**(8,228)**	(24,940)
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts and other fixed assets	EAIEC	**(34,270)**	(21,393)
Ticket reservation service charges for utilisation of computer reservation system	TravelSky Technology Limited	**(86,311)**	(71,884)
Repairs and maintenance expenses for ground service facilities	CEA Northwest	**(9,535)**	–
Repairs and maintenance expenses for aircraft and engines	Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	**(25,445)**	(25,361)
Lease rental income from operating lease of aircraft	CEA Wuhan Airlines	**38,239**	31,209

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38. Related Party Transactions (Cont'd)

(c) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (Expenses, payments or purchase consideration) 2004 RMB'000	2003 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding (Cont'd):–			
Lease rental charges for operating lease of aircraft	– CEA Northwest	**(199,188)**	(69,118)
	– Nanjing Airlines	**–**	(23,348)
	– CEA Yunnan	**(86,341)**	(27,726)
Source of food and beverages	– Eastern Air (Shantou) Economic Development Co., Ltd.	**(57,623)**	(36,413)
	– China Eastern Air Catering Investment Co., Ltd	**(188,406)**	–
	– Shanghai Eastern Air Catering Co., Ltd	**–**	(96,984)
	– Qilu Eastern Air Catering Co., Ltd.	**–**	(5,285)
	– Qingdao Air Service Co., Ltd.	**–**	(2,518)
Advertising expenses	Eastern Aviation Advertising Service Co., Ltd. ("EAASC")	**(5,629)**	(2,676)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(14,850)**	(3,149)

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38. Related Party Transactions (Cont'd)

(c) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (Expenses, payments or purchase consideration) 2004 RMB'000	2003 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding (Cont'd):–			
Rental expenses	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(5,582)**	(5,945)
Investment in China Eastern Air Real Estate Investment Co., Ltd., a company 95% owned by CEA Holding	CEA Holding	**(5,000)**	–
Investment in an associate, Eastern Aviation Import & Export Co. Ltd., a company 55% owned by CEA Holding	CEA Holding	**–**	(43,820)
Investment in an associate, China Eastern Air Catering Investment Co., Ltd., 55% interests of which is owned by CEA Holding	CEA Holding	**–**	(157,500)
Investment in an associate, Shanghai Dongmei Aviation Travel Co., Ltd., 55% interests of which is owned by CEA Holding	CEA Holding	**–**	(6,828)

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38. Related Party Transactions (Cont'd)

(c) Related party transactions (Cont'd)

(iv) Other related party arrangements with CEA Northwest/CEA Yunnan

In addition to the related party transactions disclosed above, the Company also has other non-monetary arrangements with CEA Northwest and CEA Yunnan as follows:

- Air routes – In the PRC, air routes are assigned by CAAC. The Company has permitted CEA Northwest and CEA Yunnan to use some of the air routes allocated to the Company during the year of 2004 at no charge to CEA Northwest or CEA Yunnan, as applicable, as the Company did not have sufficient capacity to fully utilise those air routes.

- Inter-airline billing code – As with all other airlines in the PRC, the Company pays a processing fee to CAAC for use of the ticket settlement system based on the volume of the tickets processed. At the direction of CAAC, the Company has permitted CEA Northwest and CEA Yunnan to use the Company's unique inter-airline billing code ("781") at no incremental charge other than amounts paid to CAAC to facilitate ticket settlement between the airlines. Internal administrative cost for ticket handling and processing are not charged to CEA Northwest and CEA Yunnan.

(v) Related party transaction of an associate

China Eastern Air Catering Investment Co., Ltd, an associate of the Company in which the Company and CEA Holding hold 45% and 55% interest respectively, acquired certain subsidiaries from CEA Holding in an aggregate consideration of RMB263,804,000 during the year ended 31 December 2004.

(d) In accordance with a specific exemption in IAS 24, "Related Party Disclosure", the Group does not accumulate or disclose transactions with other state-owned enterprises as related party transactions.

39. Financial Risk Management

Financial assets of the Group mainly include short-term deposits and bank balances, deposits with and amounts due from related companies, trade receivables, long-term receivables, bank deposits, short-term investments and derivative assets. Financial liabilities of the Group include bank and other loans, obligations under finance leases, amounts due to related companies, trade payables, notes payables, derivative liabilities and other payables.

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39. Financial Risk Management (Cont'd)

(a) Business risk

The operations of the air transportation industry are substantially influenced by global political and economic development. Accidents, wars, natural disasters, etc. may have material impact on the Group's operations or the industry as a whole. In addition, the Group conducts its principal operations in the PRC and accordingly is subject to special consideration and significant risks not typically associated with companies in the United States of America and Western Europe. These include risks associated with, among others, the political, economic and legal environment, competition and influence of CAAC in the PRC civil aviation industry.

(b) Price risk

The Group's results of operations may be significantly affected by the fluctuation of the fuel prices which is a significant expense for the Group. While the international fuel prices are determined by worldwide market demand and supply, domestic fuel prices are regulated by CAAC. It is the Group's plan to strengthen the control over the fuel price risk through financial derivatives.

(c) Interest rate risk

The Group has significant bank borrowings and is exposed to risk arising from changes in market interest rates. To hedge against the variability in the cashflow arising from a change in market interest rates, the Group entered into certain interest rate swaps during the year (note 40(a)). The interest rates and terms of repayment of loans made to the Group are disclosed in notes 25, 26 and 27.

(d) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group also receives deposit from customers and counter-parties, where appropriate, if they require credit. A major portion of sales is conducted through sales agents and majority of these agents is connected to various settlement plans and/or clearing systems which have tight requirements on credit standing of these agents.

Transactions in relation to derivative financial instruments are only carried out with financial institutions of high reputation. The Group has policies that limit the amount of credit exposure to any one financial institution.

(i) Deposits with an associate and cash and bank balances

Substantially all the Group's cash and bank balances are placed with a number of international and PRC banks and an associate, EAGF. Amount placed with any one institution is subject to a cap. Regular assessment of credit ratings on these institution has been performed. Details of deposits placed with EAGF have been disclosed in note 38(a)(iii).

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39. Financial Risk Management (Cont'd)

(d) Credit risk (Cont'd)

(ii) Trade receivables

These are mainly tickets sales receivable from sales agents and receivables related to uplifts by the Company on behalf of other carriers which are spread among numerous third parties.

(iii) Other receivables

These are spread among numerous third parties.

(e) Liquidity risk

The Group's primary cash requirements have been for additions of and upgrades on aircraft and flight equipment and payments on related debts. The Group finances its working capital requirements through a combination of funds generated from operations and short-term bank loans. The Group generally acquires aircraft through long-term finance leases. To take advantage of the low interest rate for long-term loans, recently the Group also purchased certain number of aircraft through long-term loans from banks in the PRC.

The Group generally operates with a working capital deficit. As at 31 December 2004, the Group's net current liabilities amounted to RMB 12,502 million (2003: RMB9,941 million). For the year ended 31 December 2004, the Group recorded a net cash inflow from operating activities of RMB3,266 million (2003: RMB3,163 million), a net cash outflow from investing activities and financing activities of RMB2,745 million (2003: RMB3,541 million), and an increase in cash and cash equivalents of RMB521 million (2003: decrease of RMB378 million).

The directors of Company believe that cash from operations and short-term bank borrowings will be sufficient to meet the Group's operating cashflow. Due to the dynamic nature of the underlying businesses, the Group treasury aims at maintaining flexibility in funding by keeping credit lines available. The directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes.

(f) Foreign currency risk

The Group's finance lease obligation as well as certain bank and other loans are denominated in US dollars, Japanese Yen and Euro, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenues from ticket sales made in overseas offices and would normally generate sufficient foreign currencies after payment of foreign currency expenses, to meet its foreign currency liabilities repayable within one year. RMB against US dollars had been comparatively stable in the past. However, RMB against Japanese Yen and Euro had experienced a significant level of fluctuation over the past two years which is the major reason for the significant exchange differences recognised by the Group for the years ended 31 December 2003 and 2004.

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39. Financial Risk Management (Cont'd)

(f) Foreign currency risk (Cont'd)

The Group enters into certain foreign currency forward contracts with PRC banks to hedge against foreign currency risk (note 40).

(g) Fair value

The carrying amounts and estimated fair value of the Group's significant financial assets and liabilities at 31 December 2004 are set out as follows:–

	Group and Company			
	2004		2003	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Long-term bank loans	**10,705,637**	**9,878,592**	11,222,923	10,131,805
Obligations under finance leases	**8,662,286**	**8,382,324**	7,100,886	7,069,346
Long-term bank deposits	**1,908,398**	**1,990,832**	1,743,924	1,840,139

The fair values of the long-term bank loans, obligation under finance leases and long-term bank deposits are estimated by applying a discounted cashflow approach using current market interest rates for similar indebtedness/ investment.

The fair value of cash and bank balances, trade receivables, other receivables, amounts due from and to related companies, trade payables, notes payables, other payables and short-term bank loans are not materially different from their carrying amounts because of the short maturities of these instruments.

Fair value estimates are made at specific point in time and are based on relevant market information. This estimate is subjective in nature and involves uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

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40. Derivative Financial Instruments

	Group and Company	
	Assets RMB'000	Liabilities RMB'000
At 31 December 2004		
Interest rate swaps (note (a))	**11,571**	**19,447**
Forward foreign exchange contracts (note (b))	**–**	**100,196**
	11,571	**119,643**
At 31 December 2003		
Interest rate swaps (note (a))	2,814	40,390
Forward foreign exchange contracts (note (b))	–	54,047
	2,814	94,437

(a) Interest rate swaps

The Group uses interest rate swaps to reduce risk of changes in market interest rates (note 39(c)). The interest rate swaps entered into by the Group generally for swapping variable rates, usually reference to LIBOR, with fixed rates. The Group's interest rate swaps fulfill the criteria for hedge accounting and are accounted for as cashflow hedge. As at 31 December 2004, the notional amount of the outstanding interest rate swap agreements was approximately US$437 million (2003: US$164 million) which will expire between 2006 and 2013. For the year ended 31 December 2004, a net gain of RMB29,700,000 (2003: loss of RMB315,000) arising from changes in the fair value of the interest rate swaps subsequent to initial recognition is recognised directly in the hedging reserve (note 29).

(b) Forward foreign exchange contracts

The Group uses currency forward contracts to reduce risks of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (note 39(f)). These contracts were generally entered for sales of Japanese Yen and purchases of U.S. dollars at fixed exchange rates. The Group's currency forward contracts qualify for hedge accounting and are accounted for as cashflow hedges of firm commitments. As at 31 December 2004, the notional amount of the outstanding currency forward contracts were approximately US$226 million (2003: US$237 million). These currency forward contracts will expire between 2006 and 2010. For the year ended 31 December 2004, a net loss of RMB46,149,000 (2003: RMB58,102,000) arising from changes in the fair value of these foreign currency forwards subsequent to initial recognition is recognised directly in the hedging reserve (note 29).

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41. Ultimate Holding Company

The directors regard CEA Holding, a company established in the PRC, as being the immediate holding and the ultimate holding company.

42. Post Balance Sheet Date Event

On 2 March 2005, the Company entered into an agreement with United Technologies Far East Limited ("UTFEL"), to establish Hamilton Sundstrand (Shanghai) Aerospace Technology Limited ("HSSATL"), a jointly controlled entity which will be principally engaged in the provision of repair and maintenance services for auxiliary power units of aircraft in the PRC. The registered capital of HSSATL is US$8,900,000, which is to be contributed by the Company and UTFEL in proportion of 51% and 49% respectively.