

HZKZ(2005)0001

**To the shareholders of
China Eastern Airlines Corporation Limited:**

We have audited the accompanying balance sheet and consolidated balance sheet of China Eastern Airlines Corporation Limited ("the Company") as of December 31, 2004 and the related statement of income and income appropriation, and consolidated statement of income and income appropriation, and statement of cash flow and consolidated statement of cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the Independent Auditing Standards of the People's Republic of China to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The 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 above-mentioned financial statements are in conformity with the Accounting Standards and the "Accounting Regulations for Enterprises". They present fairly, in all material respects, the financial position of the Company as of December 31, 2004, operating results and cash flow for the year then ended.

Dongmo Lin C.P.A.

Li Chen C.P.A.

Shanghai Zhonghua Certified Public Accountants

Shanghai, China

April 12, 2005

Balance Sheet

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(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Assets	Note	Consolidated		Parent corp.	
		Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
Current Assets:					
Cash & bank	5.1	3,841,460,120.53	3,322,926,329.92	2,571,544,389.61	2,246,480,385.11
Short-term Investment	5.2	413,042,752.71	182,786,582.38	412,692,752.71	182,786,582.38
Dividends Receivable		6,990,663.15	3,300,000.00	6,990,663.15	3,300,000.00
Interests Receivable		240,061.50	-	-	-
Accounts Receivable	5.3	1,780,420,970.81	1,473,550,239.60	1,562,172,460.75	967,867,269.65
Other Receivables	5.4	858,396,742.73	424,503,864.46	1,345,534,606.21	2,381,112,226.91
Prepayments	5.5	32,142,313.83	16,502,998.23	25,714,275.32	8,719,784.69
Inventories	5.6	1,177,346,469.96	1,348,137,867.35	1,098,436,416.93	1,275,070,338.58
Amounts to be Amortized	5.7	125,451,097.02	107,328,906.46	106,129,728.15	86,742,026.77
Total Current Assets		8,235,491,192.24	6,879,036,788.40	7,129,215,292.83	7,152,078,614.09
Long-term Investment					
Long-term equity Investment	5.8	677,070,402.26	694,568,890.86	2,996,065,529.94	2,578,539,797.83
Long-term Debt Investment	5.9	-	585,736,277.08	-	585,736,277.08
Total Long-term Investment		677,070,402.26	1,280,305,167.94	2,996,065,529.94	3,164,276,074.91
Less: Provision for Impairment of					
Long-term Investment	5.8	1,758,050.62	1,758,050.62	-	-
Long-term Investment, net		675,312,351.64	1,278,547,117.32	2,996,065,529.94	3,164,276,074.91
Including: Consolidation Difference	5.8	-1,653,640.63	-1,879,467.30	-	-
Including: Equity Investment Difference	5.8	53,910,614.20	58,747,236.09	51,741,918.01	58,367,059.93
Fixed Assets:					
Fixed Assets, at cost	5.10	40,860,132,679.81	35,907,184,718.07	34,097,710,149.69	29,633,482,904.84
Less: Accumulated Depreciation	5.10	12,905,946,919.58	11,716,702,028.87	10,414,452,094.15	9,596,957,491.83
Net Fixed Assets		27,954,185,760.23	24,190,482,689.20	23,683,258,055.54	20,036,525,413.01
Less: Provision for Impairment of					
Fixed Assets	5.10	3,570,000.00	3,570,000.00	3,570,000.00	3,570,000.00
Fixed Assets, net		27,950,615,760.23	24,186,912,689.20	23,679,688,055.54	20,032,955,413.01
Engineering Supplies		326,900.00	329,000.00	326,900.00	329,000.00
Construction in Progress	5.11	2,910,755,235.80	2,749,083,854.48	2,802,052,449.65	2,622,103,383.42
Disposal of Fixed Assets		-	162,661.03	-	-
Total Fixed Assets		30,861,697,896.03	26,936,488,204.71	26,482,067,405.19	22,655,387,796.43
Intangible Assets & Other Assets					
Intangible Assets	5.12	1,322,183,829.68	1,258,390,496.48	788,780,012.33	784,717,430.34
Long-term Assets to be Amortized	5.13	161,327,014.54	201,893,846.42	136,399,412.78	181,828,544.73
Total intangible Assets & Other Assets		1,483,510,844.22	1,460,284,342.90	925,179,425.11	966,545,975.07
Deferred Taxes:					
Deferred Tax Debits	5.14	139,592,391.32	133,122,893.75	114,305,063.55	111,469,166.97
Total Assets		41,395,604,675.45	36,687,479,347.08	37,646,832,716.62	34,049,757,627.47

(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Liabilities & Shareholder's Equity	Note	Consolidated		Parent corp.	
		Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
Current Liabilities:					
Short-term Loans	5.15	6,188,919,456.37	4,631,917,352.58	4,255,919,456.37	3,971,917,352.58
Notes Payable	5.16	838,337,176.10	756,486,871.84	838,337,176.10	658,901,972.62
Accounts Payable	5.17	727,835,020.99	370,753,762.69	665,488,290.48	130,642,579.69
Advances from Customers	5.18	69,661,954.06	95,527,168.39	225,488,934.68	209,428,250.17
International Sales in Advance of					
Carriage	5.19	716,225,097.79	808,998,400.37	691,240,870.62	656,057,929.59
Domestic Sales in Advance of Carriage	5.20	148,349,090.03	253,000,258.93	148,349,090.03	252,792,500.99
Payroll Payable		262,868,327.26	22,238,920.54	255,080,100.27	19,355,085.40
Welfare Payable		9,836,722.21	75,856,022.29	5,407,738.79	64,675,336.90
Dividends Payable	5.21	1,278,965.10	735,594.70	-	-
Taxes Payable	5.22	369,550,167.33	186,940,960.39	194,367,039.98	71,051,418.47
Other Outstanding Payment (statutory)	5.23	643,612,487.75	365,837,626.62	604,004,602.15	331,938,610.26
Other Payables	5.24	1,743,733,768.88	1,330,458,305.06	1,372,455,728.11	1,079,119,669.42
Accrued Expenses	5.25	3,323,089,093.18	3,235,980,189.05	2,594,404,151.53	2,606,469,634.59
Accrued Liabilities	5.26	13,831,473.00	365,973.00	13,831,473.00	365,973.00
Deferred Income	5.27	89,750,899.62	-	89,750,899.62	-
Portion of Long-term Liabilities due					
Within One Year	5.28	3,806,169,293.36	3,972,841,034.43	3,806,169,293.36	3,972,841,034.43
Total Current Liabilities		18,953,048,993.03	16,107,938,440.88	15,760,294,845.09	14,025,557,348.11
Long-term Liabilities:					
Long-term Loans	5.29	7,283,214,165.34	7,809,983,684.45	7,252,590,945.34	7,809,983,684.45
Long-term Accounts Payable	5.30	8,316,485,000.96	6,720,984,780.75	8,316,485,000.96	6,720,984,780.75
Payments for Special Purpose		102,276.05	180,112.00	102,276.05	180,112.00
Total long-term Liabilities		15,599,801,442.35	14,531,148,577.20	15,569,178,222.35	14,531,148,577.20
Deferred Taxes:					
Deferred Tax Credits	5.31	329,766,349.19	258,798,660.84	329,584,634.66	258,616,946.31
Total Liabilities		34,882,616,784.57	30,897,885,678.92	31,659,057,702.10	28,815,322,871.62
Minority Interests		714,813,526.35	562,680,156.52	-	-
Shareholder's Equity:					
Capital Stock	5.32	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00
Capital Reserve	5.33	1,182,682,050.85	1,147,086,556.87	1,285,210,430.76	1,147,086,556.87
Surplus Reserve	5.34	185,940,927.08	118,805,091.66	-	-
Including: Public Welfare Fund	5.34	90,739,788.10	58,902,989.16	-	-
Undistributed Profit	5.35	-534,737,613.40	-905,928,136.89	-261,724,416.24	-779,601,801.02
Cash Dividends		97,339,000.00	-	97,339,000.00	-
Total Shareholder's Equity		5,798,174,364.53	5,226,913,511.64	5,987,775,014.52	5,234,434,755.85
Total liabilities & Shareholder's Equity		41,395,604,675.45	36,687,479,347.08	37,646,832,716.62	34,049,757,627.47

Income Statement

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(Prepared in accordance with PRC Accounting Regulations)
For the period of January – December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Item	Note	Consolidated		Parent corp.	
		Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
I. Revenue from main Operations:	5.36	19,893,143,628.59	13,999,058,353.15	15,875,882,226.74	11,061,812,480.67
Less: Main Operating Cost	5.36	16,123,577,232.40	11,904,633,355.78	12,947,428,391.25	9,761,993,025.07
Business Taxes and additional	5.37	521,573,837.03	167,358,463.22	403,064,638.04	128,040,138.69
II. Profit from Main operations		3,247,992,559.16	1,927,066,534.15	2,525,389,197.45	1,171,779,316.91
Add: Other operating Revenue	5.38	664,863,604.99	409,834,769.12	327,651,265.45	312,550,329.19
Less: Operating Expenses		1,449,384,291.23	1,104,325,666.15	1,285,799,267.59	977,431,933.36
General & Administrative Expenses		1,176,830,743.19	1,083,814,024.61	903,400,798.62	918,235,775.83
Financial Expenses	5.39	698,476,930.78	785,040,705.64	625,102,482.12	734,615,839.26
III. Profit from Operations		588,164,198.95	-636,279,093.13	38,737,914.57	-1,145,953,902.35
Add: Investment Income	5.40	-29,401,993.41	43,804,293.09	313,895,668.13	328,159,937.91
Subsidy Income	5.41	71,219,749.56	87,894,528.18	71,105,974.91	87,894,528.18
Non-operating Income	5.42	337,990,332.32	122,982,722.18	312,336,039.27	119,004,173.37
Less: Non-operating Expenses	5.43	53,371,600.17	28,525,186.13	52,648,827.83	57,413,133.54
IV. Total Profit		914,600,687.25	-410,122,735.81	683,426,769.05	-668,308,396.43
Less: Income Tax	5.44	224,587,769.55	296,270,791.76	68,210,384.27	171,685,450.67
Gains or Losses of Minority Shareholders		153,670,846.87	119,578,275.73	-	-
V. Net Profit		536,342,070.83	-825,971,803.30	615,216,384.78	-839,993,847.10

Supplementary Data

1. Proceeds from Sale or Disposal of Departments or Invested Companies	-	-	-	-
2. Loss from Natural Disasters	-	-	-	-
3. Increase (or Decrease) of Total Profit Arising From Change in Accounting Policies	-	59,250,000.00	-	-6,000,000.00
4. Increase (or Decrease) of Total Profit Arising From Change in Accounting Estimations	-37,039,000.00	-	-35,483,000.00	-
5. Loss from Debt Reorganization	-	-	-	-
6. Other Items	-	-	-	-

Statement of Profit Appropriation

China Eastern Airlines Corporation Limited 125

(Prepared in accordance with PRC Accounting Regulations)
For the period of January – December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Item	Note	Consolidated		Parent corp.	
		Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
I. Net Profit/(loss) for the year		536,342,070.83	-825,971,803.30	615,216,384.78	-839,993,847.10
Add: (Accumulated Loss)/Retained Profits at the Beginning of the Year		-905,928,136.89	198,158,023.32	-779,601,801.02	278,888,379.81
Less: Provision for staff housing benefits		-	218,496,333.73	-	218,496,333.73
Add: Transfer from Surplus Reserve		-	-	-	-
II. Profits Available for Distribution		-369,586,066.06	-846,310,113.71	-164,385,416.24	-779,601,801.02
Less: Provision for Statutory Surplus Reserve		35,299,036.48	30,227,402.60	-	-
Provision for Statutory Welfare Fund		31,836,798.94	29,390,620.58	-	-
Provision for Staff & Worker's Welfare Fund		676,711.92	-	-	-
III. Profits Available for Distribution to Owners		-437,398,613.40	-905,928,136.89	-164,385,416.24	-779,601,801.02
Less: Dividends for Preferred Shares		-	-	-	-
Provision for Discretionary Surplus Reserve		-	-	-	-
Dividends for Common Shares		97,339,000.00	-	97,339,000.00	-
Common Shares Transferred into Share Capital		-	-	-	-
IV. Retained Profits/(Accumulated Loss)		-534,737,613.40	-905,928,136.89	-261,724,416.24	-779,601,801.02

Cash Flow Statement

(Prepared in accordance with PRC Accounting Regulations)
For the period of January – December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Item	Note	Consolidated	Parent corp.
I. Cash Flows from Operating Activities:			
Cash received from sales of goods or rendering of services		20,777,190,533.99	16,318,231,885.36
Refunds of taxes		2,985,839.97	2,870,250.00
Other cash received relating to operating activities		129,593,658.95	118,520,388.82
Sub-total of cash inflows		20,909,770,032.91	16,439,622,524.18
Cash paid for goods and services		13,441,300,043.48	10,673,510,135.17
Cash paid to and on behalf of employees		1,565,602,774.09	1,286,347,268.88
Payments of all types of taxes		869,494,073.17	575,711,245.89
Other cash paid relating to operating activities		816,248,432.45	595,227,207.30
Sub-total of cash outflows		16,692,645,323.19	13,130,795,857.24
Net cash flows from operating activities		4,217,124,709.72	3,308,826,666.94
II. Cash Flows from Investing Activities:			
Cash received from return of investments		246,031,513.13	246,031,513.13
Cash received from distribution of dividends or profits		380,108,706.76	524,872,824.51
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		965,455,430.98	2,702,786,101.84
Other cash received relating to investing activities		–	–
Sub-total of cash inflows		1,591,595,650.87	3,473,690,439.48
Cash paid for acquisition of fixed assets, intangible asset, and other long-term activities		3,690,413,240.56	3,534,373,595.66
Cash paid for acquisition of investments		63,842,274.35	166,513,074.35
Other cash paid relating to investing activities	5.45.1	30,001,980.00	30,000,000.00
Sub-total of cash outflows		3,784,257,494.91	3,730,886,670.01
Net cash flows from investing activities		-2,192,661,844.04	-257,196,230.53
III. Cash Flows from Financing Activities:			
Cash received from investors		59,400,000.00	–
including: Cash received by subsidiaries from investments by minority shareholders		59,400,000.00	–
Cash received from borrowings		9,995,591,423.35	7,481,968,203.35
Other cash received relating to financing activities		–	–
Sub-total of cash inflows		10,054,991,423.35	7,481,968,203.35
Cash repayments of amounts borrowed		8,637,069,699.78	7,427,069,699.78
Cash paid for distribution of dividends or profits and for interest expenses		509,121,009.71	360,452,079.50
including: Cash paid for distribution of dividends or profits to minority shareholders by subsidiaries		60,122,482.25	–
Other cash paid relating to financing activities	5.45.2	2,400,420,556.99	2,400,375,556.99
Sub-total of cash outflows		11,546,611,266.48	10,187,897,336.27
Net cash flows from financing activities		-1,491,619,843.13	-2,705,929,132.92
IV. Effect of Foreign Exchange Rate Changes on Cash		8,308,131.20	1,980,064.15
V. Net Increase in Cash and Cash Equivalents		541,151,153.75	347,681,367.64

Cash Flow Statement

China Eastern Airlines Corporation Limited 127

(Prepared in accordance with PRC Accounting Regulations)
For the period of January – December 2004

Prepared by: China Eastern Airlines Corporation Limited

Unit: RMB

Supplementary Information	Note	Consolidated	Parent corp.
I. Reconciliation of Net Profit to Cash Flows from Operating Activities			
Net Profit		536,342,070.83	615,216,384.78
Add: Gains or losses of minority shareholders		153,670,846.87	–
Provision for impairment of assets		73,852,281.83	39,351,049.03
Depreciation of fixed assets		1,821,060,032.06	1,440,328,778.68
Amortization of intangible assets		34,639,998.16	23,308,133.51
Amortization of long-term deferred expenses		102,066,168.59	96,056,762.26
Decrease/(increase) in deferred expense		-18,122,190.56	-19,387,701.38
Decrease/(increase) in accrued expense		160,385,706.41	21,994,645.86
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets		-17,721,604.68	-16,797,218.75
Losses on scrapping of fixed assets		–	–
Financial expenses		749,354,569.47	666,632,761.27
Losses/(gains) arising from investments		29,401,993.41	-313,895,668.13
Deferred taxes credit/(debit)		64,498,190.78	68,131,791.77
Decrease/(increase) in inventories		122,507,902.67	131,727,378.94
Decrease/(increase) in operating receivables		-2,132,599,344.89	-948,414,020.66
Increase/(decrease) in operating payable		2,512,904,583.77	1,479,690,084.76
Others	5.45.3	24,883,505.00	24,883,505.00
Net cash flows from operating activities		4,217,124,709.72	3,308,826,666.94
2. Investing and Financing Activities that do not Involve Cash Receipts and Payments			
Conversion of debt into capital		–	–
Convertible bonds maturing in one year		–	–
Fixed-assets acquired by finance leases		2,974,881,194.98	2,974,881,194.98
3. Net Increase in Cash and Cash Equivalents			
Cash at the end of the period		1,779,428,622.54	529,985,738.20
Less: cash at the beginning of the period		1,468,183,639.12	412,210,540.89
Add: cash equivalents at the end of the period		412,692,752.71	412,692,752.71
Less: cash equivalents at the beginning of the period		182,786,582.38	182,786,582.38
Net Increase in cash and cash equivalents		541,151,153.75	347,681,367.64

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

1. Brief Profile of the Company

China Eastern Airlines Corporation Limited (“the Company”) was established in April 1995 under the sole sponsorship of Eastern Air Group Company. In Feb. 1997, with the approval of State Reformation Commission by its Circular No. (1996) 180 and State Council Securities Commission by its Circular No. (1997) 4, the Company issued 1,566,950,000 H shares, which are listed on the Stock Exchange of Hong Kong and New York Stock Exchange. In May 1997, with the approval of Civil Aviation Administration of China and China Securities Supervisory Commission, the Company issued 300,000,000 A shares to the public. The registered capital of the Company is RMB 4,866,950 thousand. The registered address is No. 66 Jichang Avenue, Pudong International Airport, Shanghai.

The Company is primarily engaged in the air transportation of passengers, cargo, mails and luggage over domestic and approved overseas air routes, extended services, general aviation business, aircraft maintenance, manufacturing and maintenance of aviation equipment, agent services for airlines both at home and abroad and other business related to aviation transportation.

2. Principal Accounting Policies and Accounting Estimations

2.1 Accounting Policies Applied

The company and its subsidiaries follow the Accounting Standards and *Accounting Regulations for Business Enterprises* and its supplementary regulations. Since Jan. 1, 2003, the company and its subsidiaries also follow the *Accounting Treatment for Civil Aviation Industry*.

2.2 Accounting Period

The Company adopts the Gregorian calendar year as its accounting period, i.e., from January 1 to December 31 each year.

2.3 Base Currency

The Company adopts Renminbi (“RMB”) as its base currency.

2.4 Principle and Basis of Accounting

The Company adopts accrual basis. All items are recorded at actual cost upon acquisition. If impairment occurs, the provision for impairment will be made according to “Accounting Regulations for Business Enterprises”.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.5 Translation of Foreign Currencies

Foreign currency transactions are translated into RMB at the middle exchange rate issued by PBOC at the beginning of the month. Monetary assets and liabilities in foreign currencies are translated into RMB at the middle exchange rate prevailing at the end of each period. The differences between RMB equivalents and carrying amounts are treated as exchange differences. Exchange differences of specific borrowings related to the acquisition or construction of a fixed asset should be capitalized in the period in which they are incurred when the relevant fixed asset being acquired or constructed is not ready for its intended use. Exchange differences during preparation period are included in long-term amortization charges, which will be accounted as current profit and loss of the month during which formal operation starts. Exchange differences in normal operations are included in the exchange gains and losses of the current period.

2.6 Definition of Cash Equivalents

Cash equivalents are short term (with a holding period of less than three months), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.7 Current Investment

2.7.1 The initial cost of a current investment is the total price paid on acquisition, deducting cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds that have been accrued. Cash dividends or interests during holding period are offset against the carrying amount of investments upon receipt. On disposal of a current investment, the difference between the carrying amount and the sale proceeds is recognized as an investment gain or loss of the current period.

2.7.2 The current investment is recorded at the lower of cost and market value. The provision for impairment of current investment is made at the excess of carrying amount over the market value on an individual item basis and will be accounted as current profit and loss.

2.8 Accounting Method for Bad Debts

2.8.1 The Company adopts allowance method for bad debts. At the end of each accounting period the company analyses the recoverability of receivable items (including accounts receivable and other receivables) and makes allowance for bad debts according to the aging method and analysis result. Allowance for bad debts is not made for the items that are surely to be recovered. If there is enough evidence proving the uncollectibility of an account receivable then allowance is made at a higher ratio or at the full carrying amount. The allowance for remaining accounts receivable shall refer to the following ratios.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.8 Accounting Method for Bad Debts (Cont'd)

Aging	Ratio
Within 1 year	3‰
In the second year	5%
In the third year	10%
In the fourth year	15%
In the fifth year	20%
Over 5 years	40%

2.8.2 The company adopts following standards in determination of bad debts:

- a. When the debtor is bankrupt or dead, the accounts receivable that are unable to be recovered even after liquidation of the debtor's bankrupt estate or legacy.
- b. When the debt is overdue due to the default of the debtor and there is obvious evidence proving the uncollectibility of the accounts.

The bad debt loss should be approved by Board of Directors. The bad debts will first offset against the allowance that has already been made. If the allowance for bad debts is not enough to compensate the losses the difference will be charged into income statement of the current period.

2.9 Inventory

2.9.1 The inventory of the Company mainly comprises high-price rotables, aircraft consumables, common appliances, aircraft supplies and low-price consumables. The inventory is recorded at planned price and the difference between planned price and actual cost is recorded in 'Materials Cost Variance'. The amortization of high-price rotables is made evenly over 5 years starting from the next month of acquisition according to the adjusted actual cost. Other inventory such as aircraft consumables is charged to cost according to the adjusted actual cost when put into use. The maintenance costs for high-price rotables are recognized as current period expenses immediately when occurred.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.9 Inventory (Cont'd)

2.9.2 In respect of aircraft consumables of the aircraft type which are continue to use, provision for impairment is made based on aging analysis and corresponding percentage at the end of each period. For those of the aircraft-type which are no longer for use, provision for impairment is made at the lower of the realizable value and the carrying amount.

2.10 Long-term Investment

2.10.1 Long-term equity investment (including stock investment and other equity investment) is recorded at the actual cost after deducting cash dividends which have been declared but unpaid at the time of acquisition or at the price agreed upon by relevant parties. The equity method is applied wherever the Company can control, jointly control or has significant influence over the investee enterprise (usually when the Company holds 20% or more voting capital of the investee enterprises or holds less than 20% of the voting capital but has significant influence over the investee enterprise). Otherwise, the cost method is applied. When equity method is adopted, the difference (referred to as "equity investment difference") between the initial investment cost and the Company's share of owners' equity of the investee enterprise should be amortized evenly over a period of 10 years and charged into corresponding year's profit and loss account.

2.10.2 Long-term debt investment (including bond investment and other debt investment) is recorded at actual cost. The difference between actual cost and the nominal value of a bond investment is recognized as premium or discount. Interest from investment on bonds should be accrued periodically. The accrued interest revenue from investment on bonds, after adjustments of the amortization of premium or discount, should be recognized as investment income of the period.

2.10.3 The long-term investment is recorded at the lower of carrying amount and recoverable amount at the end of each period. If the recoverable amount of a long-term investment is lower than its carrying amount as a result of a continuing decline in market value or deterioration in operating conditions of the investee enterprise, the Company shall make provision for impairment on long-term investment on an individual item basis and charge into the current period.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.11 Fixed Assets and Depreciation

2.11.1 Fixed assets refer to those tangible assets whose useful life is over 1 year, with a high unit price and can be held physically to realize its benefits during the course of use. Fixed assets are recorded at actual acquisition cost. Fixed assets held under financial lease are recorded at net contract price and other actual incidental cost incurred. The corresponding long-term liabilities are determined by the total financing amount stipulated in such financing contracts as lease agreement and loan agreement signed by the Company and lessor. The financing expenses are apportioned during the course of leasehold at actual interest rate.

If no impairment has occurred, the depreciation is provided on a straight-line basis according to the following useful lives and estimated residual value.

	Useful lives	Residual value rate
Aircraft and engines attached	20 years	5%
Standby engines	20 years	0%
Buildings	15-35 years	3%
Vehicles and electronic devices	5-6 years	3%
Other Equipment	5-20 years	3%

When impairment occurs, the depreciation is provided on an individual item basis based on the net book value after deducting impairment and residual useful lives.

2.11.2 Fixed assets which have been or will be put into other use, or will not be in operation or will be disposed are recorded at the lower of carrying amount and recoverable amount at the end of each period. The recoverable amounts depend on the future cashflows generated by the assets or the estimates made by the management according to the current market situation. When the recoverable amounts have declined below their carrying amounts, the Company shall make provision for impairment of fix assets at the end of the period on an individual item basis and charge to the current period.

2.12 Construction-in-Progress

2.12.1 Construction-in-progress is accounted for on an individual item basis at the actual cost. Upon completion and readiness for use, the cost of construction-in-progress is to be transferred to the account of Fixed Assets. Interests incurred in connection with specific borrowings and relevant exchange differences for the purpose of construction-in-progress should be capitalized as part of the cost when the project is not ready for intended use. Interests incurred and exchange differences after the project is ready for use should be recognized as current period expenses.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.12 Construction-in-Progress (Cont'd)

2.12.2 Construction-in-progress is recorded at the lower of carrying amount and recoverable amount at the end of each period. The Company shall make provision for impairment of construction-in-progress at the excess of the carrying amount over its recoverable amount on an individual item basis and charge to the current period.

2.13 Valuation and Amortization of Intangible Assets

2.13.1 The intangible assets of the Company refer to non-monetary long-term assets without physical substance held for the purpose of rendering service, rental or for administrative purposes. The intangible assets of the Company mainly include land use right and premise use right. The intangible assets are recorded at actual acquisition cost and amortized over its expected useful life under straight-line method.

2.13.2 The intangible asset of the Company is recorded at the lower of carrying amount and recoverable amount at the end of each period. The Company shall make provision for impairment of intangible asset at the excess of the carrying amount over its recoverable amount on an individual item basis and charge to the current period.

2.14 Long-term Amortization Charges

Long-term amortization charges refer to the expenses that will be amortized after formal operation or the amortization period is over one year. Long-term amortization charges of the Company are mainly uniform cost. All long-term amortization charges are amortized evenly over its estimated beneficial period except organization cost, which will be charged to the profit and loss account of the month during which formal operation starts.

2.15 Overhaul Expenses of Aircraft and Engines

The overhaul expenses refer to maintenance of D criteria and higher grade of aircraft owned by the Company or held under finance lease or operating lease. The overhaul expenses of self-owned aircraft and aircraft held under finance lease are charged into the current profit. The overhaul expenses of aircraft under operating lease are accrued according to lease contract or at a certain percentage for different types of aircraft (the ratio of actual flying hours and estimated flying hours between overhauls). The actual overhaul expenses will offset against the accrued amount. The other daily maintenance expenses of aircraft and engines will be charged into the current profit and loss account.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.16 Sales in Advance of Carriage

The sales in advance of carriage (SIAC) are mainly sales proceeds for transportation of passengers, cargo, mail and overweight luggage with tickets of the Company, which are to be settled later. The sales in advance of carriage are classified into international and domestic under categories of passenger, cargo and mail for tickets sold in different years. The balance of SIAC is transferred out upon delivery of service by the Company or other airlines with uplifted coupons or billing list by other airlines as evidence.

According to the *Accounting Treatment for Civil Aviation Industry* with the circular number Cai-kuai [2003]18, the Company acknowledges those SIAC balances of both domestic and international sales over settlement period as "over settlement balance" and has transferred it into non-operating revenue of this year.

2.17 Retirement Benefits and Medical Insurance

2.17.1 Retirement Benefits

The Company participates in defined contribution retirement schemes regarding pension for employees organized by the governments of respective provinces. The Company and employees turn in social pension at 14.5% and 8% of the total salaries of last year recognized by government to social welfare agent. In addition, the Company provides retirees with living allowance and transportation subsidies as well as other welfare. The post-retirement benefit expenses are recognized in the current profit and loss.

2.17.2 Medical Insurance

Except Shanghai Headquarters, its subsidiaries and Ningbo Branch, the branches in other provinces have not participated in the social medical insurance scheme introduced by local governments. The Company and employees that have participated in the scheme contribute 12% and 2% of the total salaries of last year to local social welfare agent. For those who have not participated in the social medical insurance scheme, the actual medical expenses are recognized in the current profit and loss.

2.18 Revenue

2.18.1 The Company's revenue from rendering transportation service of passengers, cargo and mails is recognized upon delivery of the service with uplifted coupons as evidence.

The commission income from other carriers in respect of sales made by the Company is recognized upon billing by other carriers.

Ground service income is recognized as other operating revenue upon rendering of services.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.18 Revenue (Cont'd)

2.18.2 The interest income and royalty arising from the use by others of the assets held by the Company is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

2.19 Frequent Flyer Program

The policy of FFP implemented by the Company entitle available free travel award to members based on their accumulated mileage. Extra cost incurred as a result of the policy. The company adopts incremental cost methods to estimate the cost of the program. The estimated incremental cost is recognized as an expense in the income statement and accrued as a liability in the balance sheet. As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly.

2.20 Income Tax

Tax effects of taxable temporary timing differences are recognized as deferred income tax liabilities. Tax effects of deductible temporary timing differences are recognized as deferred income tax assets.

2.21 Basis of Consolidated Statements

2.21.1 Consolidation Scope: According to "Notice on the Distribution of 'Provisional Regulation on Consolidation of Financial Statements'" (1995) issued by Ministry of Finance and regulations of CKZ(96) No. 2 "Answer to Questions about Consolidation Scope", the consolidation scope of the Company includes all subsidiaries under control and associated companies under joint control, except those companies that have already been closed down, merged, declared in the process of liquidation or bankruptcy, intended to be sold in the new future or have an insignificant influence on consolidation.

2.21.2 Consolidation Method: The consolidated financial statements are prepared on the basis of the financial statements of the Company and its subsidiaries within consolidation scope and other relevant information. The equity investment and the corresponding portion of the owner's equity of the invested entities, the claims and liabilities, as well as all material transactions between or among them have been eliminated. The financial statements of the associate companies are consolidated in proportion.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

2. Principal Accounting Policies and Accounting Estimations (Cont'd)

2.22 Significant Changes in Accounting Estimate and its Influence

2.22.1 Contents and basis of changes in accounting estimate: The Company changed the method of provision for impairment of aircraft consumables from Jan 1, 2004 to indicate the value of these inventories more accurately and to manage the over-storage of aircraft consumables more conveniently. Provisions are recognized based on the storage age instead of the average useful life of aircraft type accordingly, and the average discount rate in previous disposal of the aircraft consumables of the workable aircraft type. For those aircraft type will not work, no provisions of the aircraft consumables will be recognized unless that the net realizable value will be lower than the carrying amounts during future disposals.

2.22.2 Influence of changes in accounting estimate: the above-mentioned change decreases the total profit of 2004 by 37.04 million.

3. Taxation Items

3.1 Business Tax

The business tax of transportation, ground service and commissions is levied at 3% of the income.

The business tax of maintenance and other services is levied at 5% of the income.

3.2 Value-added Tax

The value-added tax is levied at 4% of the material transfer income.

3.3 City Construction Tax

The city construction tax is levied at 7% of the circular tax.

3.4 Income Tax

The income tax is calculated at applicable income tax rate and taxable income of the period. According to circular HSEC(2001)104 of Shanghai State Taxation Bureau, the Company enjoys the preferential policy of Pudong New Area since July 1, 2001 and the applicable income tax rate is reduced to 15%.

3.5 Education Tax

The education tax is calculated at 3% of the circular tax.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

4. Stock-held Subsidiaries and Associated Companies

No.	Name of Investee Company	Registered Capital (10,000)	Scope of Business	Total Investment (10,000)	Share-holding Percent
1	China Eastern Airlines Jiangsu Co., Ltd.	25,750.36	Air transportation of passengers, cargo, mails and luggage over domestic air routes and approved overseas routes	14,162.70	55%
2	Shanghai Eastern Flight Training Co., Ltd.	47,300.00	Training for flying crew and other related personnel	44,935.00	95%
3	Eastern Airlines Hotel Co., Ltd.	7,000.00	Sales of food, knitwear & hardware	6,010.00	85.86%
4	China Cargo Airlines Co., Ltd.	50,000.00	Air transportation of cargo & mails, air catering, sales of tourist goods, hotel, catering and entertainment	35,000.00	70%
5	Eastern (Shantou) Economic Development Co., Ltd.	1000.00	Production & sales of aviation products, hardware, chemical materials	550.00	55%
6	Shanghai Eastern Airlines Investment Co., Ltd.	41,250.00	Investment and relevant consultation	40,752.00	98.79%
7	Shanghai Eastern Airlines Logistics Co., Ltd.	20,000	Cargo consignment, ground service, transportation service, storage, property management	15,060	70%
8	Jiangnan Tourism (HK) Co.	64.11	Tour services	64.11	100%
9	Eastern Airlines Jiangsu Advertisement Co., Ltd.	30.00	Design and making of advertisement in domestic broadcast and newspapers	30.00	100%
10	Jiangsu Suying Labor Service Co., Ltd.	16.60	Labor service, labor agent, labor information consultation and training	14.94	90%
11	Eastern Airlines Jiangsu Co., Ltd. Food Trade Co.	49.80	Shut up	49.80	100%

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

4. Stock-held Subsidiaries and Associated Companies (Cont'd)

No.	Name of Investee Company	Registered Capital (10,000)	Scope of Business	Total Investment (10,000)	Share-holding Percent
12	Jiangsu Eastern Airlines Trade Co., Ltd.	200.00	Shut up	110.00	55%
13	Jiangsu Eastern Airlines Industrial Co., Ltd.	22.86	Shut up	16.01	70%
14	Shanghai Dongwei Aviation Transportation Service Co., Ltd	300.00	Land cargo transportation and storage service	195.00	65%
15	Shanghai Eastern Fudart Transportation Services Co., Ltd.	USD100.00	Agent services for transportation of imp. & exp. cargo by air or sea	708.82	51%
16	Shanghai East Aircraft Maintain Co., Ltd.	USD310.00	airline repairing service	1,950.00	65%
17	Shanghai Eastern Airlines Swire investment Co., Ltd.	USD3000.00	civil aviation transportation and investment in the related field	USD225.00	50%

Among the above subsidiaries, No.1, No.2, No. 3, No. 4, No. 6, No. 7, No. 15, No. 16 and No.17 have been included in the consolidation scope, No. 11, No. 12, and No. 13 have been shut up and are not included in the consolidation scope; No. 5, No. 8, No.9, and No. 10 have no significant influence on the financial position and not included in the consolidation scope for the total assets, operating revenue, and net profit of these companies represent less than 10% of those of the parent company. No.14 has not started formal operation and is not included in the consolidation scope;

5. Notes to Main Items of Financial Statements

(All amounts are in RMB Yuan; the notes are explanations to major items of consolidated financial statements except otherwise specified)

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.1 Monetary Fund

Item	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
Cash			3,048,203.94			2,533,250.20
Bank Deposit			1,635,609,200.98			1,391,971,099.34
RMB	1,328,627,356.53	1.00000	1,328,627,356.53	1,111,609,314.49	1.00000	1,111,609,314.49
USD	13,861,220.47	8.27650	114,722,391.22	16,661,791.75	8.27670	137,904,651.72
JPY	690,473,198.00	0.07970	55,031,404.35	714,733,415.00	0.07726	55,222,447.85
HKD	-	1.06370	-	-	1.06110	-
EUR	2,346,005.76	11.26270	26,422,359.07	2,929,926.77	10.33830	30,290,461.92
SGD	4,304,794.41	5.05500	21,760,735.74	1,143,365.08	4.85860	5,555,153.58
KRW	2,865,582,404.00	0.00799	22,893,137.83	4,060,412,201.00	0.00691	28,053,387.90
THB	76,992,681.93	0.21220	16,337,847.11	33,604,233.61	0.20870	7,013,203.55
NZD	772,678.39	5.94005	4,589,748.27	1,099,796.36	5.41790	5,958,586.70
AUD	2,081,969.28	6.44280	13,413,711.68	923,572.31	6.20130	5,727,348.97
INR	16,632,923.51	0.18970	3,155,265.59	20,354,188.10	0.18199	3,704,258.69
GBP	1,100,576.16	15.93100	17,533,278.80	63,369.81	14.71180	932,283.97
MYR	2,831,267.12	2.17831	6,167,377.48	-	-	-
CAD	720,782.57	6.87390	4,954,587.31	-	-	-
Other Monetary Fund			2,202,802,715.61			1,928,421,980.38
Total			3,841,460,120.53			3,322,926,329.92

The other monetary fund includes the restricted overseas deposit of equivalent RMB 2.042 billion.

5.2 Current Investment

	Ending Balance			Beginning Balance		
	Balance	Provision for Impairment	Net Value	Balance	Provision for Impairment	Net Value
Stock Investment	-	-	-	-	-	-
Other Investment	413,042,752.71	-	413,042,752.71	182,786,582.38	-	182,786,582.38
	413,042,752.71	-	413,042,752.71	182,786,582.38	-	182,786,582.38

The Company entrusts ICBC Shanghai Branch and CCB Shanghai No.1 Branch to manage its short-term foreign exchange investment with its self-owned foreign exchange. The interest rate is 0.17558% of HKD and 2.12%-2.2175% of USD. The maturity is Jan 4, 2005. These investments have been refunded by the issuing date of the financial reports.

The ending balance of short investment is 125.97% more than that of last year due to the surge of foreign exchange investment to USD.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.3 Accounts Receivable

5.3.1 Consolidated

Aging	Ending Balance			Beginning Balance			Net Amount
	Amount	Percentage (%)	Provision for Bad Debts	Amount	Percentage (%)	Provision for Bad Debts	
Within 1 Year	1,774,161,359.86	94.62	4,975,466.16	1,423,421,623.45	91.28	4,433,936.98	1,418,987,686.47
In the Second Year	3,558,164.93	0.19	342,666.24	49,108,932.32	3.15	3,254,466.90	45,854,465.42
In the Third Year	13,507,663.17	0.72	8,513,820.52	8,036,426.11	0.52	3,303,213.49	4,733,212.62
In the Fourth Year	6,896,720.18	0.37	6,225,781.96	42,402,620.08	2.72	40,577,822.26	1,824,797.82
In the Fifth Year	41,598,498.29	2.22	40,663,481.15	14,039,571.73	0.90	14,020,984.72	18,587.01
Above 5 Years	35,187,705.59	1.88	33,767,925.18	22,381,142.55	1.43	20,249,652.29	2,131,490.26
Total	1,874,910,112.02	100.00	94,489,141.21	1,559,390,316.24	100.00	85,840,076.64	1,473,550,239.60

Among the above accounts receivable, there is no amount due from shareholder holding over 5% (including 5%) of the Company's share capital.

The top 5 companies owe a total amount of RMB691 million, accounting for 36.85% of the total ending balance.

5.3.2 Parent Company

Aging	Ending Balance			Beginning Balance			Net Amount
	Amount	Percentage (%)	Provision for Bad Debts	Amount	Percentage (%)	Provision for Bad Debts	
Within 1 Year	1,557,470,337.88	94.50	4,681,908.05	932,429,293.95	89.01	3,124,278.38	929,305,015.57
In the Second Year	2,589,020.41	0.16	129,451.02	37,976,801.15	3.63	2,697,860.34	35,278,940.81
In the Third Year	13,507,462.25	0.82	9,292,165.57	1,826,086.60	0.17	1,118,075.31	708,011.29
In the Fourth Year	1,283,230.67	0.08	977,573.41	39,629,327.33	3.78	39,204,102.62	425,224.71
In the Fifth Year	38,900,035.54	2.36	37,932,300.36	14,039,571.73	1.34	14,020,984.72	18,587.01
Above 5 Years	34,440,828.93	2.08	33,005,056.52	21,634,265.89	2.07	19,502,775.63	2,131,490.26
Total	1,648,190,915.68	100.00	86,018,454.93	1,047,535,346.65	100.00	79,668,077.00	967,867,269.65

Among the above accounts receivable, no amount is due from shareholder holding over 5% (including 5%) of the Company's share capital.

The top 5 companies owe a total amount of RMB1,074 million, accounting for 65.16% of the total ending balance.

The ending balance of accounts receivable is 57.34% higher than the beginning balance mainly because of the growth of sales.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.4 Other Receivables

5.4.1 Consolidated

Aging	Ending Balance				Beginning Balance			
	Amount	Percentage (%)	Provision for Bad Debts	Net Amount	Amount	Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	667,357,170.68	68.75	13,355,343.01	654,001,827.67	259,874,686.49	50.05	9,289,965.91	250,584,720.58
In the Second Year	102,052,129.97	10.51	11,192,044.11	90,860,085.86	111,285,193.19	21.43	13,353,606.05	97,931,587.14
In the Third Year	73,931,069.10	7.62	13,606,374.04	60,324,695.06	36,136,439.74	6.96	5,305,379.95	30,831,059.79
In the Fourth Year	25,247,172.09	2.60	5,396,074.92	19,851,097.17	36,514,661.23	7.03	10,801,001.47	25,713,659.76
In the Fifth Year	30,382,629.44	3.13	13,409,169.24	16,973,460.20	9,254,557.19	1.78	5,384,090.31	3,870,466.88
Above 5 Years	71,780,769.50	7.39	55,395,192.73	16,385,576.77	66,179,525.41	12.75	50,607,155.10	15,572,370.31
Total	970,750,940.78	100.00	112,354,198.05	858,396,742.73	519,245,063.25	100.00	94,741,198.79	424,503,864.46

Among the year-end balance, RMB34.31million is due from Eastern Air Group Company, a shareholder holding 62% of the Company's share capital.

The top 5 companies owe a total amount of RMB174 million, accounting for 17.92% of the total ending balance.

5.4.2 Parent Company

Aging	Ending Balance				Beginning Balance			
	Amount	Percentage (%)	Provision for Bad Debts	Net Amount	Amount	Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	777,145,595.21	55.08	12,151,356.79	764,994,238.42	2,045,883,082.61	83.18	11,803,864.53	2,034,079,218.08
In the Second Year	475,662,773.92	33.71	6,866,722.06	468,796,051.86	213,976,998.10	8.70	16,361,600.17	197,615,397.93
In the Third Year	70,666,967.95	5.01	10,687,624.76	59,979,343.19	119,354,098.70	4.85	13,627,145.85	105,726,952.85
In the Fourth Year	25,042,948.09	1.77	5,365,441.32	19,677,506.77	26,739,871.39	1.09	7,944,037.82	18,795,833.57
In the Fifth Year	19,822,845.25	1.40	3,964,569.05	15,858,276.20	11,966,501.31	0.49	2,529,759.14	9,436,742.17
Above 5 Years	42,823,077.00	3.03	26,593,887.23	16,229,189.77	41,537,897.91	1.69	26,079,815.60	15,458,082.31
Total	1,411,164,207.42	100.00	65,629,601.21	1,345,534,606.21	2,459,458,450.02	100.00	78,346,223.11	2,381,112,226.91

Among the year-end balance, RMB 34.31 million is due from Eastern Air Group Company, a shareholder holding 62% of the Company's share capital.

The top 5 companies owe a total amount of RMB845 million, accounting for 59.89% of the total ending balance.

The ending balance is 42.62% lower than that of the previous year, and the main reason is that the amounts related to the aircrafts trading between the Company (as seller) and Cargo Airlines Co., Ltd. (as buyer) have been paid in full by the end of the year 2004.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.5 Prepayments

Aging	Ending Balance		Beginning Balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 Year	32,142,313.83	100.00	15,130,134.04	91.68
In the Second Year	–	–	43,542.19	0.26
In the Third Year	–	–	374,687.00	2.27
In the Fourth Year	–	–	954,635.00	5.79
Total	32,142,313.83	100.00	16,502,998.23	100.00

Among the year-end balance, RMB 7.47 million is due from Eastern Air Group Company, a shareholder holding 62% of the Company's share capital.

The ending balance is 94.77% higher than that of the previous year, mainly results from an increase of prepayments for engine rental.

5.6 Inventory

Aging	Amount	Ending Balance		Beginning Balance		
		Provision for Impairment	Net Value	Amount	Provision for Impairment	Net Value
Aircraft Consumables	979,931,729.94	467,100,745.16	512,830,984.78	964,742,577.19	432,429,854.84	532,312,722.35
High-price Rotables	783,011,490.52	157,981,281.51	625,030,209.01	923,631,546.17	145,272,704.11	778,358,842.06
Common Appliance	21,421,794.96	–	21,421,794.96	31,522,131.48	–	31,522,131.48
Materials purchase	4,881,860.71	–	4,881,860.71	1,262,347.32	–	1,262,347.32
Low-price Consumables	904,209.27	–	904,209.27	42,742.71	–	42,742.71
Sub-contracted materials	1,152,589.22	–	1,152,589.22	2,057,255.07	–	2,057,255.07
Others	11,124,822.01	–	11,124,822.01	2,581,826.36	–	2,581,826.36
Total	1,802,428,496.63	625,082,026.67	1,177,346,469.96	1,925,840,426.30	577,702,558.95	1,348,137,867.35

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.7 Expenses to be Amortized

Category	Ending Balance	Beginning Balance
Aircraft operating Lease obligations	107,172,119.38	94,322,497.78
Duties and value-added tax of aircraft under operating lease	17,516,449.17	9,364,187.71
Others	762,528.47	3,642,220.97
Total	125,451,097.02	107,328,906.46

5.8 Long-term Equity Investment

5.8.1 Consolidated

Item	Amount	Ending Balance		Amount	Beginning Balance	
		Provision for Impairment	Net Value		Provision for Impairment	Net Value
Stock investment	360,000.00	-	360,000.00	360,000.00	-	360,000.00
Other equity investment:						
Subsidiaries	5,774,407.17	1,758,050.62	4,016,356.55	15,774,352.43	1,758,050.62	14,016,301.81
Associated companies	-	-	-	-	-	-
Affiliated companies	638,423,325.78	-	638,423,325.78	680,314,005.73	-	680,314,005.73
Other companies	34,166,309.94	-	34,166,309.94	-	-	-
Consolidation difference	-1,653,640.63	-	-1,653,640.63	-1,879,467.30	-	-1,879,467.30
Subtotal	676,710,402.26	1,758,050.62	674,952,351.64	694,208,890.86	1,758,050.62	692,450,840.24
Total	677,070,402.26	1,758,050.62	675,312,351.64	694,568,890.86	1,758,050.62	692,810,840.24

5.8.1.1 Stock investment

Investee Company	Type of Shares	Quantity of Shares	% of the Registered Capital	Ending Balance		
				Amount	Provision	Market Value
Huning Expressway Co., Ltd.	Legal person shares	200,000.00		360,000.00	-	1,102,000.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.1.2 Other equity investment

Investee Company	Investment Period	% of Shareholders' Equity	Amount	Ending Balance Including: Equity Investment Difference	Provision for Impairment
Eastern (Shantou) Economic Development Co., Ltd.	15 years	55.00%	2,614,272.54	-5,724,807.47	-
China Eastern Airlines Food Investment Co. Ltd	20 years	45.00%	170,997,901.10	-	-
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	12 years	40.00%	23,852,219.52	-	-
Eastern China Kaiya System Integration Co., Ltd.	No promise	37.00%	20,999,891.86	-	-
Shanghai Hongpu Civil Airport Communication Co., Ltd.	10 years	30.00%	7,538,770.14	-	-
Eastern Air Group Finance Co., Ltd.	20 years	25.00%	111,724,471.64	-3,322,913.25	-
China Eastern Airlines Wuhan Co., Ltd.	30 years	40.00%	89,654,598.89	57,960,976.08	-
Eastern Aviation Advertising Service Co.	No promise	45.00%	13,903,851.47	2,005,203.29	-
China Eastern Airlines Import and Export Co. Ltd	No promise	45.00%	46,554,518.50	1,161,395.52	-
Shanghai Dongmei Aviation Travel Co., Ltd.	10 years	45.00%	17,076,299.10	-	-
Shanghai Kelins Aviation Maintenance Service Co., Ltd	10 years	35.00%	13,300,785.02	-	-
Eastern Airlines Hotel Co., Ltd	20 years	19.94%	21,968,325.52	-	-
Eastern Airlines Real Estate Co., Ltd	15 years	5.00%	5,000,000.00	-	-
CAAC Information Network Co., Ltd.		0.30%	4,090,000.00	-	-
Shanghai Dongwei Aviation Travel Co., Ltd	20 years	65.00%	1,950,000.00	-	-
Eastern Union Freight (HK) Co., Ltd.	No promise	41.00%	6,063,757.47	-	-
Qingdao Liuting Int'l Airport Co., Ltd.	30 years	25.00%	112,500,000.00	-	-
China Eastern Airlines Jiangsu Catering Co.	3 years	100.00%	498,000.00	-	498,000.00
Jiangsu Eastern Airlines Trade Co., Ltd.	15 years	55.00%	1,100,000.00	-	1,100,000.00
Jiangsu Eastern Airlines Industrial Co., Ltd.	19 years	70.00%	160,050.62	-	160,050.62
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	30 years	45.00%	4,256,261.07	1,830,760.03	-
Jiangnan Tourism (Hong Kong) Co.	No promise	100.00%	557,732.78	-	-
Eastern Airlines Jiangsu Advertisement Co., Ltd.	No promise	100.00%	397,228.17	-	-
Hengtai Insurance Brokerage Co., Ltd.	No promise	3.33%	1,000,000.00	-	-
Jiangsu Suying Labor Service Co., Ltd.	10 years	90.00%	605,107.48	-	-
Total			678,364,042.89	53,910,614.20	1,758,050.62

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.1.3 Equity Investment Difference

Investee Company	Original Amount	Amortization Period	Current Period Amortization	Remaining Amount	Reason
Eastern Air Group Finance Co., Ltd.	-5,538,188.77	10 years	-553,818.88	-3,322,913.25	Note1
Eastern (Shantou) Economic Development Co., Ltd.	-8,178,296.39	10 years	-817,829.64	-5,724,807.47	Note1
China Eastern Airlines Wuhan Co., Ltd.	76,432,056.31	10 years	7,643,205.63	57,960,976.08	Note2
Eastern Aviation Advertising Service Co.	2,506,504.11	10 years	250,650.41	2,005,203.29	Note1
China Eastern Airlines Import and Export Co. Ltd	1,451,744.40	10 years	145,174.44	1,161,395.52	Note1
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	1,979,200.00	10 years	148,439.97	1,830,760.03	Note1
Total				53,910,614.20	

Note 1: The transaction price is determined with reference to evaluated net assets. The difference between evaluated net assets and the carrying amount of net assets of subsidiaries is accounted for as equity investment difference.

Note 2: The former Wuhan Airlines took part in the incorporation of China Eastern Airlines Wuhan Co., Ltd. with its evaluated net assets. Some of them are not recognized according to the accounting policy of the Company and the net assets on contribution date are adjusted accordingly.

5.8.1.4 Consolidation Difference

Investee Company	Original Amount	Amortization Period	Amortization this Period	Remaining Balance
Shanghai Eastern Fudart Transportation Services Co., Ltd.	-1,853,287.13	10 years	-183,586.67	-1,315,704.47
Shanghai East Aircraft Maintain Co., Ltd.	-422,417.96	10 years	-42,240.00	-337,936.16
Total				-1,653,640.63

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.2 Parent Company

Item	Ending Balance			Beginning Balance		
	Amount	Provision for Impairment	Net Value	Amount	Provision for Impairment	Net Value
Stock investment	-	-	-	-	-	-
Other equity investment:						
Subsidiaries	2,449,403,897.18	-	2,449,403,897.18	2,016,145,022.41	-	2,016,145,022.41
Associated companies	-	-	-	-	-	-
Affiliated companies	515,603,307.24	-	515,603,307.24	558,304,775.42	-	558,304,775.42
Other companies	31,058,325.52	-	31,058,325.52	4,090,000.00	-	4,090,000.00
Subtotal	2,996,065,529.94	-	2,996,065,529.94	2,578,539,797.83	-	2,578,539,797.83
Total	2,996,065,529.94	-	2,996,065,529.94	2,578,539,797.83	-	2,578,539,797.83

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.2.1 Other Equity Investment

Investee Company	Investment Period	% of Shareholders' Equity	Amount	Ending Balance Including: Equity Investment Difference	Provision for Impairment
China Eastern Airlines Jiangsu Co., Ltd.	No promise	55.00%	156,130,586.80	-	-
Shanghai Eastern Flight Training Co., Ltd.	50 years	95.00%	476,751,084.28	-	-
Eastern Airlines Hotel Co., Ltd.	30 years	85.86%	47,007,928.31	-	-
China Cargo Airlines Co., Ltd.	No promise	70.00%	1,161,789,900.73	-	-
Shanghai Eastern Airlines Investment Co., Ltd.	20 years	98.79%	417,404,018.10	-	-
Shanghai East Aircraft Maintain Co., Ltd.	20 years	60.00%	11,064,287.46	-337,936.16	-
Eastern (Shantou) Economic Development Co., Ltd.	15 years	55.00%	2,614,272.54	-5,724,807.47	-
Shanghai Eastern logistics Co., Ltd.	20 years	69.30%	176,641,818.96	-	-
China Eastern Airlines Food Investment Co. Ltd	20 years	45.00%	170,997,901.10	-	-
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	12 years	40.00%	23,852,219.52	-	-
Eastern China Kaiya System Integration Co., Ltd.	No promise	37.00%	20,999,891.86	-	-
Shanghai Hongpu Civil Airport Communication Co., Ltd.	10 years	30.00%	7,538,770.14	-	-
Eastern Air Group Finance Co., Ltd.	20 years	25.00%	111,724,471.64	-3,322,913.25	-
China Eastern Airlines Wuhan Co., Ltd.	30 years	40.00%	89,654,598.89	57,960,976.08	-
Eastern Aviation Advertising Service Co.	No promise	45.00%	13,903,851.47	2,005,203.29	-
Eastern China Airlines Import & Export Co., Ltd.	No promise	45.00%	46,554,518.50	1,161,395.52	-
Shanghai Dongmei Aviation Travel Co., Ltd.	10 years	45.00%	17,076,299.10	-	-
Shanghai Kelins Aviation Maintenance Service Co., Ltd	10 years	35.00%	13,300,785.02	-	-
Shanghai Eastern Airlines Hotel Co., Ltd	20 years	19.94%	21,968,325.52	-	-
Eastern Airlines Real Estate Co., Ltd	15 years	5.00%	5,000,000.00	-	-
CAAC Information Network Co., Ltd.		0.30%	4,090,000.00	-	-
Total			2,996,065,529.94	51,741,918.01	-

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.2.2 Equity Investment Difference

Investee Company	Original Amount	Amortization Period	Current Period Amortization	Remaining Amount	Reason
Eastern Air Group Finance Co., Ltd.	-5,538,188.77	10 years	-553,818.88	-3,322,913.25	Note 1
Eastern (Shantou) Economic Development Co., Ltd.	-8,178,296.39	10 years	-817,829.64	-5,724,807.47	Note 1
China Eastern Airlines Wuhan Co., Ltd.	76,432,056.31	10 years	7,643,205.59	57,960,976.08	Note 2
Eastern Aviation Advertising Service Co.	2,506,504.11	10 years	250,650.41	2,005,203.29	Note 1
China Eastern Airlines Import and Export Co. Ltd	1,451,744.40	10 years	145,174.44	1,161,395.52	Note 1
Shanghai East Aircraft Maintain Co., Ltd.	-422,417.96	10 years	-42,241.00	-337,936.16	Note 1
Total				51,741,918.01	

Note 1: The transaction price is determined with reference to evaluated net assets. The difference between evaluated net assets and the carrying amount of net assets of subsidiaries is accounted for as equity investment difference.

Note 2: The former Wuhan Airlines took part in the incorporation of China Eastern Airlines Wuhan Co., Ltd. with its evaluated net assets, some of which are not recognized according to the accounting policy of the Company and the net assets on contribution date are adjusted accordingly.

5.9 Long-term Debt Investment

Item	Amount	Ending Balance Provision for Impairment	Net Value	Amount	Beginning Balance Provision for Impairment	Net Value
Bond	-	-	-	585,736,277.08	-	585,736,277.08
Other Bond	-	-	-	-	-	-
Total	-	-	-	585,736,277.08	-	585,736,277.08

5.9.1 Long-term Bond Investment (Unit: USD)

Category	Par value	Initial Cost	Interest Rate per Annum	Maturity	Interest Accrued, Current	Interest Accrued, Current	Ending Balance Provision for impairment Amount	Ending Balance Provision for impairment
US Treasury Zero Coupon Bonds	71,475,000.00	27,810,207.00	8.0435477%	Feb. 2004	-	43,012,596.45	-	-

The long-term bond investment has been refunded by the end of 2004.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.10 Fixed Assets

Item	Self-purchased Aircraft	Aircraft Engines	Aircraft Held under Financial Lease	Building & Premises	Equipment	Vehicles	Total
Cost:							
Beginning Balance	15,151,891,392.87	1,861,656,909.31	14,215,843,441.58	2,325,152,563.12	1,442,792,803.43	909,847,607.76	35,907,184,718.07
Increase	2,272,599,620.36	105,813,314.35	3,628,713,511.53	79,293,347.54	222,219,151.96	102,372,564.54	6,411,011,510.28
Decrease	113,763,154.14	1,205,812,217.97	-	72,064,147.72	21,627,561.81	44,796,466.90	1,458,063,548.54
Ending Balance	17,310,727,859.09	761,658,005.69	17,844,556,953.11	2,332,381,762.94	1,643,384,393.58	967,423,705.40	40,860,132,679.81
Accumulated Depreciation:							
Beginning Balance	3,250,415,881.17	886,321,606.84	5,857,550,900.15	387,861,155.97	743,470,127.37	591,082,357.37	11,716,702,028.87
Increase	828,327,814.70	54,223,989.03	601,558,537.23	86,452,622.64	149,228,721.27	101,268,347.19	1,821,060,032.06
Decrease	-	542,766,449.62	-	29,243,322.00	19,684,742.15	40,120,627.58	631,815,141.35
Ending Balance	4,078,743,695.87	397,779,146.25	6,459,109,437.38	445,070,456.61	873,014,106.49	652,230,076.98	12,905,946,919.58
Net Value:							
Beginning Balance	11,901,475,511.70	975,335,302.47	8,358,292,541.43	1,937,291,407.15	699,322,676.06	318,765,250.39	24,190,482,689.20
Ending Balance	13,231,984,163.22	363,878,859.44	11,385,447,515.73	1,887,311,306.33	770,370,287.09	315,193,628.42	27,954,185,760.23
Provision for Impairment:							
Beginning Balance	3,570,000.00	-	-	-	-	-	3,570,000.00
Increase (Decrease)	-	-	-	-	-	-	-
Ending Balance	3,570,000.00	-	-	-	-	-	3,570,000.00
Book value:							
Beginning Balance	11,897,905,511.70	975,335,302.47	8,358,292,541.43	1,937,291,407.15	699,322,676.06	318,765,250.39	24,186,912,689.20
Ending Balance	13,228,414,163.22	363,878,859.44	11,385,447,515.73	1,887,311,306.33	770,370,287.09	315,193,628.42	27,950,615,760.23

The increase of fixed assets this year includes RMB 2,353 million transferred from construction-in-progress. The amount of net fixed assets includes the net value of RMB 5,113 million aircraft collateralized. The net value of aircrafts which are operating-leased out is RMB 310 million.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.11 Construction-In-Progress

Item	Progress	Source of Fund	Ending Balance			Beginning Balance		
			Book value	Provision for impairment	Net value	Book value	Provision for impairment	Net value
Advance Payment for								
A330 Aircraft	Uncompleted	Loans, self-financing	1,665,484,576.60	-	1,665,484,576.60	-	-	-
Advance Payment for								
A320 Aircraft	Uncompleted	Loans, self-financing	621,787,458.29	-	621,787,458.29	1,078,957,432.96	-	1,078,957,432.96
Advance Payment for								
A321 Aircraft	Uncompleted	Loans, self-financing	302,282,734.38	-	302,282,734.38	441,805,880.80	-	441,805,880.80
B737-800 Aircraft Simulator	Uncompleted	Self-financing	82,268,288.32	-	82,268,288.32	36,004,610.00	-	36,004,610.00
Deposit of A340-600 Spare								
Engine	Uncompleted	Self-financing	50,793,676.58	-	50,793,676.58	18,586,592.26	-	18,586,592.26
Advance Payment for B737								
Aircraft	Uncompleted	Loans, self-financing	29,612,563.77	-	29,612,563.77	6,662,160.33	-	6,662,160.33
Xiamen International Travel								
Building	Uncompleted	Self-financing	27,700,000.00	19,000,000.00	8,700,000.00	27,700,000.00	19,000,000.00	8,700,000.00
Overhaul Expenses of								
Aircraft Engines	Uncompleted	Self-financing	18,801,973.04	-	18,801,973.04	14,473,371.10	-	14,473,371.10
A340 Simulator	Uncompleted	Self-financing	13,255,642.40	-	13,255,642.40	-	-	-
Transformer Substation	Uncompleted	Self-financing	11,571,670.00	-	11,571,670.00	9,295,949.00	-	9,295,949.00
Decoration of operating								
building	Uncompleted	Self-financing	8,575,351.86	-	8,575,351.86	2,172,895.00	-	2,172,895.00
Financial Management								
Information System	Uncompleted	Self-financing	8,154,667.00	-	8,154,667.00	5,499,480.00	-	5,499,480.00
Earning Management								
Information System	Uncompleted	Self-financing	4,659,464.96	-	4,659,464.96	4,659,464.96	-	4,659,464.96
Land of Dongshe Airport	Uncompleted	Self-financing	4,495,915.42	-	4,495,915.42	4,495,915.42	-	4,495,915.42
The Second Period of								
Freight Construction	Uncompleted	Self-financing	4,397,674.74	-	4,397,674.74	-	-	-
Flight Training Building	Uncompleted	Self-financing	4,181,531.59	-	4,181,531.59	2,221,057.00	-	2,221,057.00
Fire Protection Pump Station								
For Area of Maintenance	Uncompleted	Self-financing	3,816,472.02	-	3,816,472.02	3,716,018.02	-	3,716,018.02
Other Affiliated Construction	Uncompleted	Self-financing	3,448,907.20	-	3,448,907.20	1,927,946.20	-	1,927,946.20
80 Units of Area Airport Land	Uncompleted	Self-financing	3,290,000.00	-	3,290,000.00	3,290,000.00	-	3,290,000.00
AOC Construction	Uncompleted	Loans, self-financing	2,842,468.04	-	2,842,468.04	2,046,280.20	-	2,046,280.20
Others (78 items)			58,334,199.59	-	58,334,199.59	1,104,568,801.23	-	1,104,568,801.23
Total			2,929,755,235.80	19,000,000.00	2,910,755,235.80	2,768,083,854.48	19,000,000.00	2,749,083,854.48

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.11 Construction-In-Progress (Cont'd)

Total amount of RMB 3,155 million increased in construction-in-progress and RMB 2,353 million is transferred to fixed assets while RMB 641 million is transferred to other accounts.

The beginning balance of capitalized interest included is RMB 64 million and increases by RMB 59 million during this year. Total amount transferred to fixed assets is RMB 85 million and to other accounts is RMB 0.77 million and the year-ending balance is RMB 38 million. The percentage of average capitalization to determine amount of capitalized interest is 3.07%.

5.12 Intangible Assets

Category	Land Use Right	Premise Use Right	Software	Others	Total
Initial Amount	1,676,256,619.68	43,732,860.00	44,719,490.69	1,153,565.00	1,765,862,535.37
Acquisition Method	Contribution/self-purchase	Self-purchase	Self-purchase	Self-purchase	
Beginning Balance:					
Amount	1,199,914,465.43	39,127,419.20	18,568,213.52	780,398.33	1,258,390,496.48
Less: Provision for Impairment	-	-	-	-	-
Net Value	1,199,914,465.43	39,127,419.20	18,568,213.52	780,398.33	1,258,390,496.48
Increase:	74,312,615.86	-	24,120,715.50	-	98,433,331.36
Decrease:					
Transfer out	-	-	254,000.00	-	254,000.00
Amortization	29,416,426.54	869,498.16	3,891,020.09	209,053.37	34,385,998.16
Provision (write-off) of impairment	-	-	-	-	-
Subtotal	29,416,426.54	869,498.16	4,145,020.09	209,053.37	34,639,998.16
Ending Balance:					
Amount	1,244,810,654.75	38,257,921.04	38,543,908.93	571,344.96	1,322,183,829.68
Less: Provision for Impairment	-	-	-	-	-
Net Value	1,244,810,654.75	38,257,921.04	38,543,908.93	571,344.96	1,322,183,829.68
Remaining Months	32-593 months	528 months	24-99 months	16-47 months	

*(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.12 Intangible Assets (Cont'd)

The management committee considers that: The Company hasn't charged the provision for impairment, because there is no situation of market value in excess of their book value.

In the process of translation to a public-listed corporation, Eastern Air Group Company, a shareholder holding 62% of the Company's share capital, invested a land occupancy right which is located in China (mainly in Shanghai Hongqiao Airport). The transfer of use right has not registered yet. By the end of Dec. 2004, the net book value of the asset is 317 million. Before the completion of the alteration, the company's right to transfer or mortgage will be restricted as the registered name of the land use right certification is not consistent with the company's name. But the company's right to occupy and use the land will not be affected, and the company does not consider this condition will have significant influence on financial position.

The company's stock-held subsidiary China Eastern Airlines Jiangsu Co., Ltd plans to attract a new shareholder of Nanjing Municipal Investment Company who as the land owner will invest the land use right. The land in Lukou airport which is located in Lukou Town, Jiangling District, Nanjing City. The nature of the land is an allocated land with no limit on use years. Now the transfer of allocated land to granted land is in process. Owing to the uncompleted procedure, the capital injection of China Eastern Airlines Jiangsu Co., Ltd has not accomplished.

The company's stock-held subsidiary China Eastern Airlines Jiangsu Co., Ltd holds the land use right of Lukou Airport which is invested by an investor of Jiangsu Airline Industrial Group. The type of the land use right is "state-owned land use right".

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.13 Long-term Amortization Charges

Item	Customs Duties and VAT on Aircraft Held under Operating Lease & Supervision Charges on Aircraft with Tax Reduction	Flying Crew Training Expenses	Aircraft Modification Expenses	Uniform Cost	One-off transportation allowance	Other Deferred Expenses	Total
Initial Amount	205,146,907.73	100,879,100.00	100,739,063.13	29,870,809.68	29,616,338.00	37,813,558.18	504,065,776.72
Beginning Balance	47,971,396.98	39,898,977.00	69,403,991.91	19,768,428.99	-	24,851,051.54	201,893,846.42
Increase	5,947,014.30	-	2,929,700.45	21,652,883.96	29,616,338.00	1,353,400.00	61,499,336.71
Amortization	16,326,784.20	38,959,977.00	12,231,537.84	26,023,674.45	1,966,953.61	5,604,111.69	101,113,038.79
Transfer out	-	-	-	14,129.80	-	939,000.00	953,129.80
Ending Balance Accumulated	37,591,627.08	939,000.00	60,102,154.52	15,383,508.70	27,649,384.39	19,661,339.85	161,327,014.54
Amortization Remaining	167,555,280.65	99,940,100.00	40,636,908.61	14,487,300.98	1,966,953.61	18,152,218.33	
Months	16-117 months	20 months	65-115 months		69-71 months		

5.14 Deferred Tax Debts

5.14.1 Consolidated

Item	Ending Balance	Beginning Balance
Provision for Bad Debts	38,043,755.48	38,560,147.38
Provision for Impairment of Inventory	97,582,979.14	89,964,575.74
Provision for Impairment of Fixed Assets	535,500.00	535,500.00
Unverified Losses under Disposal of Fixed Assets	-	632,513.93
Provision for Impairment of Construction-in-progress	2,850,000.00	2,850,000.00
Provision for Impairment of Long-term Investment	580,156.70	580,156.70
Total	139,592,391.32	133,122,893.75

5.14.2 Parent Company

Item	Ending Balance	Beginning Balance
Provision for Bad Debts	20,498,538.02	23,766,108.91
Provision for Impairment of Inventory	90,421,025.53	83,685,044.13
Provision for Impairment of Fixed Assets	535,500.00	535,500.00
Unverified Losses under Disposal of Fixed Assets	-	632,513.93
Provision for Impairment of Construction-in-progress	2,852,000.00	2,850,000.00
Total	114,305,063.55	111,469,166.97

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.15 Short-term Loans

Category	Ending Balance	Beginning Balance
Credit Loans	5,055,919,456.37	4,601,917,352.58
Guarantee Loans	1,133,000,000.00	30,000,000.00
Total	6,188,919,456.37	4,631,917,352.58

RMB 110 million of the Guarantee Loans are borrowed by a stock-held subsidiary with the guarantor of another stock-held subsidiary, and the rest RMB 33 million are borrowed by a stock-held subsidiary with the guarantor of China Eastern Air Group Co., a shareholder holding 62% of the Company's share capital.

5.16 Notes Payable

Item	Ending Balance	Beginning Balance
Commercial Acceptance Bills	838,337,176.10	676,486,871.84
Bank Acceptance Bills	–	80,000,000.00
Total	838,337,176.10	756,486,871.84

The Company has signed integrated credit facility contracts with China Construction Bank Shanghai Branch, China Minsheng Banking Co. Ltd. Shanghai Branch, Industrial Bank Shanghai Branch and Bank of China Shanghai Branch this year. The company pays for the goods by issuing the commercial acceptance drafts whose interests are born by the buyer.

Among the year-end balance, no amount is due from shareholder holding over 5% (including 5%) of the Company's share capital.

5.17 Accounts Payables

	Ending Balance	Beginning Balance
Accounts payables	727,835,020.99	370,753,762.69

Accounts payable refer to the amounts payable to other airlines, which have been billed but unsettled yet and the amounts payable for purchase of aviation equipment.

There is no amount due to shareholders holding more than 5% (including 5%) of the Company's voting shares.

The ending balance is 96.31% higher than the previous year. The main reason is the increase of the current period's purchase.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.18 Advances from Customers

	Ending Balance	Beginning Balance
Advances from customers	69,661,954.06	95,527,168.39

There is no amount due to shareholders that hold more than 5% (including 5%) of the Company's voting shares.

5.19 International Sales in Advance of Carriage

<International Sales in Advance of Carriage> refers to the amount pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for international routes. On receipt of evidence of transportation provided by the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <International Sales in Advance of Carriage> has an ending credit balance of RMB 716,225,097.79.

5.20 Domestic Sales in Advance of Carriage

<Domestic Sales in Advance of Carriage> refers to the amount pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for domestic routes. On receipt of the evidence of transportation from the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <Domestic Sales in Advance of Carriage> has an ending credit balance of RMB 148,349,090.03.

5.21 Dividend payable

Item	Ending Balance	Beginning Balance
Dividends of Legal-person Shares	1,278,965.10	735,594.70
Total	1,278,965.10	735,594.70

5.22 Tax Payable

Item	Ending Balance	Beginning Balance
Income Tax	230,277,153.79	185,850,339.44
Value-added Tax	3,037,577.23	7,014,698.63
Business Tax (Note)	113,571,464.19	-9,662,805.69
City Construction Tax	6,579,463.97	152,775.12
Others	16,084,508.15	3,585,952.89
Total	369,550,167.33	186,940,960.39

The ending balance is 97.68% higher than that of the previous year, resulting from the increase of the current period's operating revenue and net income.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.23 Other outstanding payment (Statutory)

The ending balance of other outstanding payment (Statutory) is RMB 643,612,487.75, mainly because the Company follows "Regulations on the Accounting Treatment in the Reform of Staff Housing" (Cai-kuai [2001] 5) and has accrued housing subsidy for employees of RMB336 million, besides, it also has accrued civil aviation infrastructure levies payable of RMB 244 million.

5.24 Other Payables

	Ending balance	Beginning balance
Other Payables	1,743,733,768.88	1,330,458,305.06

Among the ending balance, RMB 16.32 million is payable to Eastern Air Group Company, a shareholder holding over 5% of the Company's share capital.

The ending balance is 31.06% higher than last year, mainly due to the increase of overhaul expense.

5.25 Accrued Expenses

Item	Ending Balance	Beginning Balance
Accrued Interest on Aircraft under Financial Lease	76,341,158.84	137,948,486.64
Accrued Interest on Loan	15,473,979.44	27,143,453.92
Aircraft Operating Lease Obligation	18,724,114.45	137,273,131.76
Overhaul Expenses of Aircraft Engines	731,006,634.21	1,056,316,918.26
Taking-off & Landing Charges	720,874,440.78	683,835,038.21
Aircraft Fuel	1,218,486,166.71	708,322,128.36
Food and Beverage	182,175,665.66	121,553,879.31
Aircraft Insurance	84,505,861.35	84,368,514.74
Flight Crew Training	94,160,241.49	106,484,790.41
Off-Port Information Expense	45,836,621.10	95,598,325.20
Flying Hours Expenses	28,248,717.60	11,828,037.73
Rentals of Office Buildings	6,866,366.56	942,873.51
Airport Consumables Repairing Charge	85,852,601.50	44,850,000.00
Others	14,536,523.49	19,514,611.00
Total	3,323,089,093.18	3,235,980,189.05

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.26 Accrued Liabilities

The ending balance of accrued liabilities is RMB 13,831,473.00, mainly owing to the provision made for the incremental cost of FFP.

5.27 Deferred income

The ending balance of deferred income is RMB 89,750,899.62, determined by the residual amount after amortization of the difference between the carrying amount and sale price of leaseback operation.

5.28 Current Portion of Long-term Liabilities

Item	Ending Balance	Beginning Balance
Current Portion of Long-term Loans	2,290,849,925.73	1,956,619,716.19
Current Portion of Long-term Accounts Payable	1,485,319,367.63	1,986,221,318.24
Current Portion of Amount Payable due to Assets Transfer	30,000,000.00	30,000,000.00
Total	3,806,169,293.36	3,972,841,034.43

Current Portion of Long-term Accounts Payable is the amount payable for fixed assets held under financial lease. Details are as follows:

Item	Ending Balance	Beginning Balance
The least payment for fixed assets held under financial lease	1,827,026,473.80	2,427,469,083.52
Less: Un-transferred financing expenses	341,707,106.17	441,247,765.28
Net amount of long-term accounts payable for fixed assets held under financial lease	1,485,319,367.63	1,986,221,318.24

5.29 Long-term Loans

Type	Ending Balance	Beginning Balance
Credit	3,396,177,570.56	3,434,162,629.12
Guaranteed	230,623,220.00	412,500,000.00
Collateralized	3,656,413,374.78	3,963,321,055.33
Total	7,283,214,165.34	7,809,983,684.45

The guarantor of the debt above is Eastern Air Group Co., a shareholder holding 62% of the Company's share capital.

The collateral of the collateralized loans are 12 A320 aircrafts, 3 A340 aircrafts, 3 A300 aircrafts, 1 MD90 aircraft and 4 B-737 Aircrafts, of which the relevant procedures are still in process.

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.30 Long-term Accounts Payable

Item	Ending Balance	Beginning Balance
Accounts payable for fixed assets held under financial lease	8,196,485,000.96	6,570,984,780.75
Accounts payable to China Civil Aviation Flight Institute	120,000,000.00	150,000,000.00
Total	8,316,485,000.96	6,720,984,780.75

5.30.1 Accounts Payable for Fixed Assets Held under Financial Lease

Item	Ending Balance	Beginning Balance
Least payment for fixed assets held under financial lease	8,639,557,608.60	7,329,817,580.65
Less: Un-transferred financing expenses	443,072,607.64	758,832,799.90
Net amount of long-term accounts payable for fixed assets held under financial lease	8,196,485,000.96	6,570,984,780.75

The ending balance of accounts payable for fixed assets held under financial lease is RMB 8,196,485,000.96, which is payable to financial lease companies for aircraft held under financial lease. The balance includes USD 710,702,925.27 translated at the exchange rate of @ 8.2765; DEM 198,315,949.91, translated at @5.7691; JPY 14,682,973,781.00, translated at @0.079701.

5.30.2 Payment for China Civil Aviation Flight Institute

The Company acquired the assets of Great Wall Airlines Co., which was under the jurisdiction of China Civil Aviation Flight Institute, at a price of RMB270 million. According to the transfer agreement, the Company will pay in installments in 9 years starting from June 2001. The Company paid RMB30 million this year. Accumulated payment is RMB120 million and the ending balance is RMB 150 million. (include: RMB 120 million charged to long-term accounts payable and RMB 30 million charged to current portion of long-term liabilities.)

5.31 Deferred Tax Credits

Item	Ending Balance	Beginning Balance
Tangible Assets Donated	181,714.53	181,714.53
Assets Revaluation Increment	314,370.00	392,962.50
Depreciation	329,270,264.66	258,223,983.81
Total	329,766,349.19	258,798,660.84

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.32 Share Capital

	Beginning Balance	Change, Current	Ending Balance
I. Unlisted Shares			
1. Sponsors' Shares			
Including:			
State-owned Shares	3,000,000,000.00	–	3,000,000,000.00
2. Subscribed Legal Person Shares	–	–	–
3. Internal Staff Shares	–	–	–
Total Unlisted Shares	3,000,000,000.00	–	3,000,000,000.00
II. Listed Shares			
1. Domestically Listed RMB Common shares	300,000,000.00	–	300,000,000.00
2. Domestically Listed Foreign Invested Shares	–	–	–
3. Overseas Listed Foreign Invested Shares	1,566,950,000.00	–	1,566,950,000.00
Total Listed Shares	1,866,950,000.00	–	1,866,950,000.00
III. Total Capital Shares	4,866,950,000.00	–	4,866,950,000.00

5.33 Capital Reserve

Item	Beginning Balance	Increase	Decrease	Ending Balance
Premium on Shares	954,456,511.50	–	–	954,456,511.50
Reserve for Equity Investment	30,064,054.55	9,786,736.49	–	39,850,791.04
Reserve for Asset Revaluation Increment	162,546,102.82	–	40,540,209.94	122,005,892.88
Other Capital Surplus Transferred In	–	40,759,431.68	–	40,759,431.68
Transferred from Payments for Special Purpose	19,888.00	24,883,505.00	–	24,903,393.00
The difference of related transaction	–	706,030.75	–	706,030.75
Total	1,147,086,556.87	76,135,703.92	40,540,209.94	1,182,682,050.85

The current increase of <Capital Surplus-Reserve for Equity Investment> mainly refers to move-in of the difference between the carrying amount and sale price during the current investment to Shanghai Kelin Aircraft Maintain Co., Ltd.

The current decrease of <Capital Surplus-Reserve for Asset Revaluation Increment> mainly refers to the amortization of asset evaluation increment of RMB 400,948,524.29 formed during the restructuring of the Company. From year 1998, the balance is to be amortized into <Capital Surplus-Other Capital Surplus Transferred In> evenly over a period of 10 years.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.33 Capital Reserve (Cont'd)

The current increase of <Capital Surplus-Special Allocation Transferred in> mainly refers to the allocation by the CAAC transferred from Eastern Air Group Company, in the purpose of the construction of the Aviation Security Enforcement System. By the end of 2004, the fund has been used according to the regulation.

5.34 Surplus Reserve

Item	Beginning Balance	Increase, Current	Decrease, Current	Ending Balance
Statutory Surplus Reserve	59,820,936.84	35,299,036.48	-	95,119,973.32
Public Welfare Fund	58,902,989.16	31,836,798.94	-	90,739,788.10
Discretionary Surplus Reserve	81,165.66	-	-	81,165.66
Total	118,805,091.66	67,135,835.42	-	185,940,927.08

5.35 Undistributed Profit

Undistributed Profit at the Beginning of the Year	-905,928,136.89
Add: Current Profit	536,342,070.83
Profits Available for Distribution	-369,586,066.06
Less: Provision for Statutory Surplus Reserve	35,299,036.48
Provision for Statutory Welfare Fund	31,836,798.94
Provision for Staff & Worker's Welfare Fund	676,711.92
Dividends for Common Shares	97,339,000.00
Ending Balance	-534,737,613.40

The all current-period profit will be used to cover the loss of previous-period. The increased Surplus Reserve is reserved according to the net profit of 1 consolidated subsidiaries - China Cargo Airlines Co., Ltd. According to the decision of the second regular meeting of the year 2004 of Board of Directors, the company will distribute bonus of RMB 0.20(include tax) per 10 shares to all shareholders, and RMB 97,339,000.00 of distributable profit in total will be allotted.

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5. Notes to Main Items of Financial Statements (Cont'd)

5.36 Revenue from Main Operations

5.36.1 Consolidated

5.36.1.1 Business Type

Item	Year 2004			Year 2003		
	Revenue	Cost	Profit	Revenue	Cost	Profit
Air Transportation &						
Commission	19,863,525,436.53	16,099,571,413.31	3,763,954,023.22	13,983,687,842.77	11,891,704,802.10	2,091,983,040.67
Training	29,618,192.06	24,005,819.09	5,612,372.97	15,370,510.38	12,928,553.68	2,441,956.70
Total	19,893,143,628.59	16,123,577,232.40	3,769,566,396.19	13,999,058,353.15	11,904,633,355.78	2,094,424,997.37

5.36.1.2 Region

Item	Year 2004			Year 2003		
	Revenue	Cost	Profit	Revenue	Cost	Profit
Domestic	8,528,136,879.39	6,799,102,681.02	1,729,034,198.37	6,242,387,220.79	5,552,353,470.16	690,033,750.63
International	8,552,225,426.72	7,113,303,692.25	1,438,921,734.47	5,747,487,545.89	4,623,091,954.59	1,124,395,591.30
Regional	2,812,781,322.48	2,211,170,859.13	601,610,463.35	2,009,183,586.47	1,729,187,931.03	279,995,655.44
Total	19,893,143,628.59	16,123,577,232.40	3,769,566,396.19	13,999,058,353.15	11,904,633,355.78	2,094,424,997.37

The revenue from top 5 customers is RMB1,643 million, representing 8.26% of the total revenue.

The revenue from main operations is 42.10% higher than that of last year, mainly because of the exemption from SARS this year and the increase of the transportation capacity.

The cost from main operations is 35.44% higher than that of last year. In addition to the above-mentioned reason, the boost of fuel prices in domestic and international markets also contributes to the increase.

5.36.2 Parent Company

5.36.2.1 Business Type

Item	Year 2004			Year 2003		
	Revenue	Cost	Profit	Revenue	Cost	Profit
Air Transportation &						
Commission	15,875,882,226.74	12,947,428,391.25	2,928,453,835.49	11,061,812,480.67	9,761,993,025.07	1,299,819,455.60
Training	-	-	-	-	-	-
Total	15,875,882,226.74	12,947,428,391.25	2,928,453,835.49	11,061,812,480.67	9,761,993,025.07	1,299,819,455.60

Notes to the Financial Statements

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5. Notes to Main Items of Financial Statements (Cont'd)

5.36 Revenue from Main Operations (Cont'd)

5.36.2.2 Region

Item	Year 2004			Year 2003		
	Revenue	Cost	Profit	Revenue	Cost	Profit
Domestic	7,188,623,606.60	5,906,798,677.60	1,281,824,929.00	5,209,284,524.38	4,608,155,552.87	601,128,971.51
International	6,223,101,955.18	5,028,734,037.91	1,194,367,917.27	3,983,811,739.20	3,486,673,618.81	497,138,120.39
Regional	2,464,156,664.96	2,011,895,675.74	452,260,989.22	1,868,716,217.09	1,667,163,853.39	201,552,363.70
Total	15,875,882,226.74	12,947,428,391.25	2,928,453,835.49	11,061,812,480.67	9,761,993,025.07	1,299,819,455.60

The revenue from top 5 customers is 1,643 million, representing 10.35% of the total revenue.

The revenue from main operations is 43.52% higher than that of last year, mainly because of the exemption from SARS this year and the increase of the transportation capacity.

The cost from main operations is 32.63% higher than that of last year, boost of domestic and international fuel price also contribute to the increase besides the above-mentioned reason.

5.37 Business Tax and Additional

Item	Year 2004	Year 2003
Business Tax	486,974,160.11	152,855,144.10
City Construction Tax	23,429,837.54	9,877,254.52
Education Tax	11,169,839.38	4,626,064.60
Total	521,573,837.03	167,358,463.22

The business tax and additional is 211.65% higher than that of last year. The main reason is: in the previous year, the business tax and additional levied on passenger transportation from May to September is returned to the Company at the full amount as financial subsidy according to Implementation of "Guidance on the Measures to Lower the Influence of SARS on Some Industries" issued by Shanghai Municipal Government (Hu-cai-fa 2003 No. 55). Pursuant to relevant rules, the civil aviation business of the Company is exempt from business tax, city construction tax and additional education tax from Oct. 1, 2003 to Dec. 31, 2003. This year, the preferential policy is not applicable any more.

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5. Notes to Main Items of Financial Statements (Cont'd)

5.38 Other Operating Revenue

Item	Revenue	Year 2004		Revenue	Year 2003	
		Cost	Profit		Cost	Profit
Materials Transfer	18,350,837.50	16,431,887.05	1,918,950.45	10,979,268.19	11,281,151.88	-301,883.69
Commission	93,660.68	2,331.00	91,329.68	193,861.48	16,696.40	177,165.08
Ground Service	929,115,940.06	340,171,994.03	588,943,946.03	627,804,688.24	286,573,319.20	341,231,369.04
Overhaul Expenses of						
Aircraft Engines	11,724,687.62	9,077,682.64	2,647,004.98	28,203,593.55	21,625,727.66	6,577,865.89
Aircraft Sub-lease	108,934,377.26	37,849,252.92	71,085,124.34	95,527,708.25	43,866,576.98	51,661,131.27
Others	39,084,865.65	38,907,616.14	177,249.51	28,137,814.00	17,648,692.47	10,489,121.53
Total	1,107,304,368.77	442,440,763.78	664,863,604.99	790,846,933.71	381,012,164.59	409,834,769.12

The other operating revenue is 62.23% higher than that of last year, mainly because of the exemption from SARS this year.

5.39 Financial Expenses

Item	Year 2004	Year 2003
Interest Expenses	815,401,872.30	822,474,889.49
Less: Interest Income	128,735,693.19	108,408,300.66
Exchange Losses	437,472,243.32	369,031,974.00
Less: Exchange Gains	440,661,447.30	306,183,837.29
Others	14,999,955.65	8,125,980.10
Total	698,476,930.78	785,040,705.64

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.40 Investment Income

5.40.1 Consolidated

Item	Year 2004	Year 2003
Stock Investment Gains	–	22,203,405.49
Bond Investment Gains	5,847,961.54	43,604,968.41
Profit Distributed by Investee Company Accounted with Cost Method	–	993,288.00
Net Increase (Decrease) of Shareholders' Equity of Investee Companies Adjusted at the End of the Year	-33,673,522.23	-17,000,829.32
Amortization of Equity Investment Difference	-6,589,995.22	-5,996,539.49
Others	5,013,562.50	–
Total	-29,401,993.41	43,804,293.09

The sharp drop of investment income is mainly because that the company has refunded its bond investment and has withdrawn an investment to a consolidated subsidiary which acquired sound gains on entrusted financing last year.

5.40.2 Parent Company

Item	Year 2004	Year 2003
Stock Investment Gains	5,847,961.54	43,604,968.41
Bond Investment Gains	–	993,288.00
Net Increase (Decrease) of Shareholders' Equity of Investee Companies Adjusted at the End of the Year	314,672,848.51	290,186,821.66
Amortization of Equity Investment Difference	-6,625,141.92	-6,625,140.16
Total	313,895,668.13	328,159,937.91

5.41 Subsidy Income

Item	Year 2004	Year 2003
Airline subsidy	12,436,200.00	5,860,000.00
Return of Tax	584,024.65	43,568,528.18
Financial Subsidy	58,199,524.91	38,466,000.00
Total	71,219,749.56	87,894,528.18

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.41 Subsidy Income (Cont'd)

5.41.1 The Company received special subsidy fund for flight course of RMB 12.44 million.

5.41.2.1 According to the relevant regulation (Hu-cai-yu 2002 No. 113) of Shanghai Ministry of Finance, the Company received a Financial subsidy of RMB 52.63 million.

5.41.2.2 The Company's Ningbo branch is granted a financial subsidy of RMB 5.57 million by Ningbo Bureau of Finance.

5.42 Non-operating Income

Item	Year 2004	Year 2003
Net Gains on Disposal of Fixed Assets	54,378,530.16	1,330,807.51
Stock Profit of Fixed Assets	178,100.00	–
Penalty Income	2,300,164.01	3,952,829.46
Others	281,133,538.15	117,699,085.21
Total	337,990,332.32	122,982,722.18

The non-operating income is 174.83% higher than that of last year, mainly because of the high balance of sales in advance of carriage in excess of settlement period which is recognized by the company follow the Accounting Treatment for Civil Aviation Industry.

5.43 Non-operating Expenses

Item	Year 2004	Year 2003
Net Loss on Disposal of Fixed Assets	36,700,174.08	9,674,564.75
Penalties	1,303,678.05	865,566.54
Donation	478,061.80	328,941.06
Provision for Impairment of Construction-in-progress	–	9,000,000.00
Others	14,889,686.24	8,656,113.78
Total	53,371,600.17	28,525,186.13

The non-operating expenses is 87.10% higher than that of last year, mainly because of high expenditure on disposal of aircraft engine.

*(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004*

5. Notes to Main Items of Financial Statements (Cont'd)

5.44 *Income Tax*

The income tax this year is RMB 224,587,769.55, which is deferred income taxes.

5.45 *Other Significant Items in the Cash Flows Statement*

- 5.45.1 Included in cash paid relating to other investing activities is RMB 30 million, paid for the purchase of Great Wall Airlines Co., an affiliate of former China Civil Aviation Flight Institute, according to assets transfer agreement.
- 5.45.2 Included in cash paid relating to other financing activities is RMB 2,400 million, paid for the capitalized loan interest borrowed for the purchase and construction of fixed assets or other long-term assets, and the financing expense of fixed assets held under financial lease.
- 5.45.3 The amount RMB 24.88 million is the special allocated fund by CAAC transferred from Eastern Air Group Company in the purpose of construction of aviation security enforcement system. By the end of this period, the fund has been used at full amount according to the regulations, and has been reserved in the capital reserve.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

5. Notes to Main Items of Financial Statements (Cont'd)

5.46 Subsidiaries Included in the Consolidation Scope Starting from this Period

The Company invested to Shanghai Eastern Logistics Co., Ltd. in the form of cash. The financial statements of the company as of the end of this year are included in the consolidation scope. The main financial data of the company is as follows:

	Ending Balance
Total assets	1,400,533,136.06
Current assets	215,642,416.48
Long-term investment	–
Fixed assets	737,049,567.73
Intangible assets	447,841,151.85
Other assets	–
Total liability	–
Current liability	1,145,638,736.40
Long-term liability	–

	Year 2004
Main operation revenue	182,277,566.29
Main operation income	103,979,687.91
Total income	64,454,606.16
Income tax expenses	9,668,190.92
Net income	54,786,415.24

5.47 Non-frequented gains and losses

Items	Year 2004	Year 2003
Gain on short-term investment	–	18,872,894.67
Subsidy income	60,536,787.13	75,135,348.95
Gains on disposal of fixed assets	46,093,303.51	1,113,033.44
Revenue of Sales in Advance of Carriage excesses settlement period	215,141,670.66	98,966,740.57
Other Operating Revenue	25,871,932.03	4,424,966.51
Less: Losses on disposal of fixed assets	31,140,310.64	8,832,544.21
Other Non-operating Expense	14,155,066.94	8,495,601.45
Total	302,348,315.75	181,184,838.48

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

6. Related Party Relationships and Transactions

6.1 Related Parties with Control Relationship

6.1.1 Brief Introduction of Related Parties with Control Relationship

Company	Registered Address	Main Operations	Relation with the Company	Type	Legal Representative
Eastern Air Group Company	Hongqiao West Rd., Shanghai	Management of subsidiary companies	Parent company	State-owned	Ye Yigan
Shanghai Eastern Flight Training Co., Ltd.	Waigaoqiao, Shanghai	Training of flying crew and other staff in connection with aviation	Subsidiary	Limited Liability	Yan Banghong
Eastern Airlines Hotel Co., Ltd.	Beijing	Sales of packaged food, beverage, knitwear, grocery	Subsidiary	Limited Liability	Cao Jianxiong
China Cargo Airlines Co. Ltd.	Pudong New Area	Air transportation of cargo and mails over domestic and international air routes	Subsidiary	Limited Liability	Li Zhongming
Jiangnan Tourism (Hong Kong) Co.	Hong Kong	Tourist service	Subsidiary	Limited Liabilities	Su Guoxin
Eastern Airlines (Shantou) Economic development Co., Ltd.	Shantou	Manufacture and sales of products on airlines, sales of grocery and chemistries materials	Subsidiary	Limited Liabilities	Wu JiuHong
China Eastern Airlines Jiangsu Co., Ltd.	Nanjing	Air transportation of passengers, cargo and mails over domestic and approved international air routes	Subsidiary	Limited Liability	Su Guoxin
Eastern Airlines Jiangsu Advertisement Co.	Nanjing	Design of newspaper, advertisement, and presswork	Subsidiary	Collective owned enterprise	Yang Jianmin
	Chongming Island of Shanghai	Land Freight Transportation, Storage Service etc	Subsidiary	Limited Liabilities	Chen Daqian
Shanghai Eastern Fudart Transportation Services Co., Ltd.	Pudong New Area, Shanghai	Agent services for transportation of imp. & exp. cargo by air or sea; international air express	Subsidiary	Sino-foreign joint venture	Zhou LiguO
Shanghai Eastern Airlines Investment Co., Ltd.	Pudong New Area, Shanghai	Industry investment and the related consulting services	Subsidiary	Limited Liability	Liu Shaoyong
Shanghai East Aircraft Maintain Co., Ltd.	Pudong New Area, Shanghai	Airline maintaining services	Subsidiary	Sino-foreign joint venture	Yang Xu
Shanghai Eastern Logistics Co., Ltd	Pudong New Area, Shanghai	Freight Consignment, Land freight Load and Unload, Transportation Service, Storage, Property Management	Subsidiary	Limited Liability	Li Fenghua

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

6. Related Party Relationships and Transactions (Cont'd)

6.1 Related Parties with Control Relationship (Cont'd)

6.1.2 Registered Capital and its Movement of Related Parties with Control Relationship

Company	Beginning Balance	Increase	Decrease	Ending Balance
Eastern Air Group Company	748,970,000.00	-	-	748,970,000.00
Shanghai Eastern Flight Training Co., Ltd.	473,000,000.00	-	-	473,000,000.00
Eastern Airlines Hotel Co., Ltd.	70,000,000.00	-	-	70,000,000.00
China Cargo Airlines Co. Ltd.	500,000,000.00	-	-	500,000,000.00
Jiangnan Tourism (Hong Kong) Co.	641,100.00	-	-	641,100.00
Eastern Airlines (Shantou) Economic development Co., Ltd.	10,000,000.00	-	-	10,000,000.00
China Eastern Airlines Jiangsu Co., Ltd.	257,503,600.00	-	-	257,503,600.00
Eastern Airlines Jiangsu Advertisement Co.	300,000.00	-	-	300,000.00
Shanghai Dongwei Aviation Transportation Co., Ltd		3,000,000.00		3,000,000.00
Shanghai Eastern Fudart Transportation Services Co., Ltd.	USD1,000,000	-	-	USD1,000,000
Shanghai Eastern Airlines Investment Co., Ltd.	412,500,000.00	-	-	412,500,000.00
Shanghai East Aircraft Maintain Co., Ltd.	USD3,100,000	-	-	USD3,100,000
Shanghai Eastern Logistics Co.,Ltd		200,000,000.00		200,000,000.00

6.1.3 Stock Held and its Movement of Related Parties with Control Relationship

Company	Beginning Balance		Increase, Current		Decrease, Current		Ending Balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Eastern Air Group Company	3,000,000,000.00	62.00	-	-	-	-	3,000,000,000.00	62.00
Shanghai Eastern Flight Training Co., Ltd.	449,350,000.00	95.00	-	-	-	-	449,350,000.00	95.00
Eastern Airlines Industrial Co., Ltd.	60,100,000.00	85.86	-	-	-	-	60,100,000.00	85.86
China Cargo Airlines Co. Ltd.	350,000,000.00	70.00	-	-	-	-	350,000,000.00	70.00
Jiangnan Tourism (Hong Kong) Co.	330,000.00	55.00	-	-	-	-	330,000.00	55.00
Eastern Airlines (Shantou) Economic development Co., Ltd.	5,500,000.00	55.00	-	-	-	-	5,500,000.00	55.00
China Eastern Airlines Jiangsu Co., Ltd.	141,626,980.00	55.00	-	-	-	-	141,626,980.00	55.00
Eastern Airlines Jiangsu Advertisement Co.	165,000.00	55.00	-	-	-	-	165,000.00	55.00
Shanghai Dongwei Aviation Transportation Co.,Ltd	-	-	1,365,000.00	45.50	-	-	1,365,000.00	45.50
Shanghai Eastern Fudart Transportation Services Co., Ltd.	2,040,031.52	35.70	-	-	-	-	2,040,031.52	35.70
Shanghai Eastern Airlines Investment Co., Ltd.	407,520,000.00	98.79	-	-	-	-	407,520,000.00	98.79
Shanghai East Aircraft Maintain Co., Ltd.	15,394,662.00	60.00	-	-	-	-	15,394,662.00	60.00
Shanghai Eastern Logistics Co., Ltd	-	-	140,000,000.00	70.00	-	-	140,000,000.00	70.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

6. Related Party Relationships and Transactions (Cont'd)

6.1 Related Parties with Control Relationship (Cont'd)

6.1.4 Transactions with Related Parties with Control Relationship (Unit: RMB'000)

6.1.4.1 Transaction Amount with Related Parties

6.1.4.1.1 Supply of Food and Beverage

Company	Year 2004	Year 2003
Eastern Airlines (Shantou) Economic development Co., Ltd.	57,623	36,413

6.1.4.2 Amount Due From or To the Related Parties

Item	Ending Balance	Beginning Balance
Other account receivable: China East Airlines Group Co.	34,305	961
Other account payable: China East Airlines Group Co.	16,319	13,797
Prepayments: China East Airlines Group Co.	7,474	–

6.2 Related Parties without Control Relationship but have Transactions with the Company (Unit: RMB'000)

6.2.1 Nature of Relation with Related Parties without Control Relationship

Company	Relation with the Company
China Eastern Airlines Import and Export Co. Ltd	Same parent company
Qingdao Air Service Co., Ltd.	Same parent company
Eastern Air Group Finance Co., Ltd.	Same parent company
Shanghai Eastern Real Estate Operation Co.	Same parent company
Shanghai Eastern Air Catering Co., Ltd.	Same parent company
Shanghai Eastern Aviation Equipment Manufacturing Corporation	Same parent company
Eastern Aviation Advertising Service Co.	Same parent company
Eastern Airlines Int'l Tourism Transportation Co., Ltd	Same parent company
Shanghai Dongmei Aviation Travel Co., Ltd.	Same parent company
Shanghai Eastern Development Co.	Same parent company
Eastern (Zhoushan) Tourism Industrial development Company	Same parent company
Shanghai Travel Service (Hong Kong) Co., Ltd.	Same parent company
Shanghai Tourism (Hong Kong) Co., Ltd.	Same parent company
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	Subsidiary
China Eastern Airlines Wuhan Co., Ltd.	Subsidiary
China Eastern Airlines North West Co., Ltd.	Same parent company
China Eastern Airlines Yunnan Co., Ltd.	Same parent company
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	Subsidiary
Nanjing Aviation Co.	Same parent company
China Eastern Airlines Food Investment Co. Ltd	Subsidiary
Qi Lu Eastern Airlines Catering Co., Ltd.	Same parent company

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

6. Related Party Relationships and Transactions (Cont'd)

6.2 Related Parties without Control Relationship but have Transactions with the Company (Unit: RMB'000) (Cont'd)

6.2.2 Amount of Related Party Transactions

6.2.2.1 Purchase

The breakdown of purchase of fixed assets, flight equipment or food and beverage by the Company from related parties is as follows.

Company	Year 2004	Year 2003
Qingdao Air Service Co., Ltd.	14,291	2,518
Shanghai Eastern Air Catering Co., Ltd.	165,643	96,984
Shanghai Eastern Aviation Equipment Manufacturing Corporation	14,850	3,149
Eastern Aviation Advertising Service Co.	–	1,360
China Eastern Airlines Import and Export Co. Ltd	5,328,000	3,079,271
Qi Lu Eastern Airlines Catering Co., Ltd.	8,472	5,285

6.2.2.2 Service

The services provided by related parties are as follows.

Company	Year 2004	Year 2003
China Eastern Airlines Import and Export Co. Ltd	34,270	21,393
Shanghai Eastern Aviation Equipment Manufacturing Corporation	1,241	5,945
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	25,445	25,361
Eastern Aviation Advertising Service Co.	5,629	1,317
Shanghai Dongmei Aviation Travel Co., Ltd.	8,228	24,940
China Eastern Airlines Wuhan Co., Ltd.	32,396	8,547
China Eastern Airline North West Co., Ltd.	14,181	17,776
China Eastern Airline Yunnan Co., Ltd.	22,494	10,743

6.2.2.3 Labor

The labor provided to related parties are as follows.

Company	Year 2004	Year 2003
China Eastern Airlines Wuhan Co., Ltd.	32,396	28,965
China Eastern Airline North West Co., Ltd.	87,883	47,457
China Eastern Airline Yunnan Co., Ltd.	81,517	50,442
Nanjing Aviation Co.	5,156	4,210

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6. Related Party Relationships and Transactions (Cont'd)

6.2 Related Parties without Control Relationship but have Transactions with the Company (Unit: RMB'000) (Cont'd)

6.2.2.4 Supply of fund

The placement of deposit by the Company in Eastern Air Group Finance Co., Ltd. generated an interest income of 4,897 thousand in 2004.

6.2.2.5 Finance

Then Company paid an interest of 1,150 thousand for borrowings from Eastern Air Group Finance Co., Ltd..

6.2.2.6 Lease

6.2.2.6.1 The Company paid a rent of RMB 199,188 thousand to China Eastern Airline North West Co., Ltd. for the lease of 2 A300 aircrafts during Jan.-Sep. 2004

6.2.2.6.2 The Company received a rent of RMB 41,715 thousand to China Eastern Airlines Wuhan Co., Ltd. for the lease of two B737-300 aircrafts during 2004

6.2.2.6.3 The Company paid a rent of RMB 86,341 thousand to China Eastern Airline Yunnan Co., Ltd. for the lease of two CRJ aircrafts during Jan.-Sep. 2004

6.2.2.6.4 The Company's aircraft maintenance base paid a rent of RMB 4,341 thousand to Shanghai Eastern Aviation Equipment Manufacture Co.,Ltd. for the lease of building and equipment.

6.2.2.7 Sale of Equity

The Company sold all of its held equity of subsidiary Qi Lu Eastern Air Catering Co., Ltd. And Yan Tai Eastern Air Catering Co., Ltd to its subsidiary Shanghai Eastern Air Catering Co.,Ltd. The transaction price is determined by the net assets value appraised on the agreement date.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2004

6. Related Party Relationships and Transactions (Cont'd)

6.2 Related Parties without Control Relationship but have Transactions with the Company (Unit: RMB'000) (Cont'd)

6.2.3 Amounts Due to or From the Related Parties

6.2.3.1 Accounts Receivable:

Company	Ending Balance	Beginning Balance
Shanghai Eastern Development Co.	–	10,440
Shanghai Tourism (Hong Kong) Co., Ltd.	111,132	58,190
Shanghai Dongmei Aviation Travel Co., Ltd.	40,228	24,940
Eastern International Tourism Transportation Co., Ltd.	11,012	11,012
Eastern (Zhoushan) Tourism Industrial Development Co.	5,162	5,762
Shanghai Travel Service (Hong Kong) Co., Ltd.	90,153	69,641
China Eastern Airlines Wuhan Co., Ltd.	274	423
China Eastern Airline Yunnan Co., Ltd.	52,128	–
China Eastern Airline North West Co., Ltd.	7,176	5,990

6.2.3.2 Accounts Payable

Company	Ending Balance	Beginning Balance
China Eastern Airlines Import and Export Co.	81,859	156,827
Shanghai Eastern Air Catering Co., Ltd.	–	800
China Eastern Airlines Wuhan Co., Ltd.	25,257	36,100
China Eastern Airline North West Co., Ltd.	150,003	57,502
China Eastern Airline Yunnan Co., Ltd.	–	30,871
Nanjing Aviation Co.	1,547	–

6.2.3.3 Other receivables

Company	Ending Balance	Beginning Balance
China Eastern Airlines Import and Export Co.	14,120	11,972
Eastern Aviation Advertising Service Co.	1,392	1,392
Shanghai Eastern Air Catering Co., Ltd.	1,268	–
China Eastern Airline North West Co., Ltd.	38,466	14,550
China Eastern Airlines Wuhan Co., Ltd.	5,822	12,132
China Eastern Airline Yunnan Co., Ltd.	18,416	1,379
Nanjing Aviation Co.	54,230	–
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	6,320	–

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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6. Related Party Relationships and Transactions (Cont'd)

6.2 Related Parties without Control Relationship but have Transactions with the Company (Unit: RMB'000) (Cont'd)

6.2.3.4 Prepayments

Company	Ending Balance	Beginning Balance
Shanghai Eastern Aviation Equipment Manufacturing Corporation	–	454
China Eastern Airlines Import and Export Co.	511	17,209

6.2.3.5 Other Payables

Company	Ending Balance	Beginning Balance
China Eastern Airlines Import and Export Co.	18,129	329,635
Eastern Aviation Advertising Service Co.	–	1,597
China Eastern Airline North West Co., Ltd.	–	49,205
Shanghai Eastern Real Estate Operation Co.	–	64
Nanjing Aviation Co.	–	15,535
Jiangsu Eastern Airlines Traveling Agency Co., Ltd	8,319	–

6.2.3.6 Advance from Customers

Company	Ending Balance	Beginning Balance
Jiangsu Eastern Airlines Traveling Agency Co., Ltd	2,011	–

6.2.3.7 Other Related Party Transactions

Emoluments for key management personnel

	Year 2004	Year 2003
Number of key executives	13	9
Emoluments	2,285	1,502

(Prepared in accordance with PRC Accounting Regulations)
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7. Commitment

7.1 Financial Lease Commitment

According to the irrevocable financial lease contract, the least financial lease commitment as of Dec. 31, 2004 is equivalent to RMB 8,640 million. The lease payable in 2005, 2006 and 2007 is about RMB 1,827 million, RMB 2,232 million and RMB 2,517 million respectively.

7.2 Operating Lease Commitment

According to the irrevocable operating lease contract, the least lease commitment as of Dec. 31, 2004 is RMB 5,186 million. The lease payable in 2005, 2006 and 2007 is RMB 1,107 million, RMB 949 million and RMB 759 million respectively.

7.3 Capital Expenditure Commitment

The Company signed an agreement with an independent third party for the purchase of 20 Airbus A320 aircraft, 10 and 5 have been delivered in 2003 and 2004, and 5 are to be delivered in 2005.

The Company signed an agreement with an independent third party to purchase 5 CFM56 engines. Of the 5 engines, 1 and 1 have been delivered in 2003 and 2004, 1 are to be delivered in 2007 and 2 are to be delivered in 2008.

The Company signed an agreement with an independent third party to purchase 4 A321 aircrafts. Of the 4 aircrafts, 2 have been delivered in 2004, 2 are to be delivered in 2005.

The Company signed an agreement with an independent third party to purchase 6 B737-700 aircrafts. All are to be delivered in 2006.

The Company signed an agreement with an independent third party to purchase 20 A330 aircrafts. Of the 20 aircrafts, 10 are to be delivered in 2006, 6 are to be delivered in 2007 and 4 are to be delivered in 2008.

The Company signed an agreement with an independent third party to purchase 5 A319 aircrafts. Of the 5 aircrafts, 3 are to be delivered in 2006 and 2 are to be delivered in 2007.

The Company signed an agreement with an independent third party to purchase 5 ERJ145 aircrafts manufactured by Harbin Bowei Aircraft Industrial Co.,Ltd. Of the 5 aircrafts, 3 are to be delivered in 2005 and 2 are to be delivered in 2006.

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8. Contingent Event

8.1 The Company estimates that there will be lots of foreign exchange reserve including foreign exchange in currencies of Southeast Asia from the sale of air tickets even after repayment of foreign currency debts such as financial lease commitment and aircraft payment. Considering the continuing devaluation and instability of politics and economy of this area, it is probable that the Company will face great foreign exchange risk. To lower this risk, the Company signed some forward and swap contracts with domestic banks. By Dec. 31, 2004, the Company still has the following contracts which signed but not implemented:

Type	Tenor	Nominal Principal
Interest Rate Swap	2002-2014	437,495,442.05
Foreign Exchang Swap	2002-2010	22,525,241.00
Foreign Exchang Forward	2004-2007	255,659,771.10

8.2 There is high risk of fuel price fluctuation in the aircraft fuel market in the near future and the fuel price is on the continuing rise. The Company estimates that the great fluctuation will not relax very soon. Considering the cost is subject to the fuel price fluctuation, the Company signed some option contracts on aircraft fuel with overseas banks to control the price risk of aircraft fuel.

9. Unadjusted Events after Balance Sheet Date

The Company signed an agreement with United Technologies Far East Ltd on March 3, 2005 to set up Shanghai Hansheng Space Navigation Technologies Co.,Ltd. The main operation of the investee is to provide the maintenance and overhaul service of aircraft assistant power device. Its registered capital is USD 8,900,000, 51% and 49% of the capital will be input by the Company and United Technologies Far East Ltd respectively.

10. Other Significant Event

The Company and its consolidated subsidiary China Eastern Airlines Jiangsu Co., Ltd leased 3 A310 aircrafts and 3 BAe146 aircrafts from China Eastern Airline North West Co., Ltd and its held subsidiary Nanjing Aviation Co., Ltd, which are wholly-owned by Eastern Air Group Company, a shareholder holding over 62% of the Company's share capital. The board of directors of the Company cancelled the transaction as soon as knew about it in August, 2004. The decision also get the approval of China Eastern Airline North West Co., Ltd and Nanjing Aviation Co., Ltd. And the third parties agreed to make a retrospective adjustment to the transaction date, the Company have made it accordingly. So, the committee of the Company considers that: there is no effective contractual relationship on the aircrafts lease between these related parties.

(Prepared in accordance with PRC Accounting Regulations)
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11. Approval of Financial Statements

The financial statements were approved by Board of Directors on April 12th, 2005.

12. Comparison

To conform to the principle of consistency, some beginning balances and figures of last year have been reclassified or restated.

13. Supplementary Information

Significant differences between International Financial Reporting Standards ("IFRS") and PRC Accounting Regulations (Unit: RMB'000)

Net Assets:

	Ending Balance	Beginning Balance
As stated in accordance with IFRS	6,882,244	6,382,151
Difference in depreciation charges of other flight equipment due to different useful lives	-1,361,373	-1,215,435
Difference in depreciation charges of aircraft and deferred income of sales of aircraft and engine due to different useful life	-1,517,691	-1,738,037
Provision for overhaul expenses	801,034	782,300
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	34,810	42,743
Provision for post-retirement benefits	588,394	563,783
Staff housing allowance	-25,986	-20,727
Time value on installments payable for acquisition of a passenger carriage business	-19,796	-28,140
Goodwill	-79,172	-84,828
Negative goodwill	42,869	46,323
Reversal of revalued amount for land use right	357,771	366,269
Revaluation deficit of aircraft	68,367	68,367
Loss on sale of staff quarters	-24,373	-24,373
Unrealized gains on cash flow hedges	91,861	91,861
Tax adjustments	75,828	119,682
Other	-116,613	-111,043
As stated in accordance with PRC audited statutory accounts	5,789,174	5,226,914

Notes to the Financial Statements

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(Prepared in accordance with PRC Accounting Regulations)
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13. Supplementary Information (Cont'd)

Net Profit:

	Current Year	Previous Year
As stated in accordance with IFRS	514,075	-949,816
Difference in depreciation charges of other flight equipment due to different useful lives	-145,938	-329,492
Difference in depreciation charges of aircraft and deferred income of sales of aircraft and engine due to different useful life	220,346	235,520
Provision for overhaul expenses	18,734	-51,181
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	-7,933	-9,221
Provision for post-retirement benefits	24,611	20,844
Staff housing allowance	-5,259	227,613
Interest accrued on installments payable for acquisition of a passenger carriage business	8,344	9,610
Amortization of goodwill	5,656	5,656
Amortization of negative goodwill	-3,454	-3,454
Reversal of revalued amount for land use rights	-8,498	-8,420
Tax adjustments	-43,854	-48,717
Other	-40,488	75,086
As stated in accordance with PRC audited statutory accounts	536,342	-825,972