
Interim Report 2005
中國東方航空股份有限公司
China Eastern Airlines Corporation Limited

The Board of Directors of China Eastern Airlines Corporation Limited (the "Company") hereby presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005 (which were approved by the Board of Directors of the Company on 29 August 2005), with comparative figures for the corresponding financial information in 2004.

Although the interim financial report of the Group for the six months ended 30 June 2005 is unaudited, the Audit Committee of the Company has reviewed the Group's accounting principles and methods with the management of the Company, and had discussions with the Board of Directors of the Company regarding internal controls and financial reporting issues, including a review of the unaudited interim financial statements for the six months ended 30 June 2005. The Audit Committee of the Company has no disagreement regarding the accounting principles and methods adopted by the Group.

FINANCIAL STATEMENTS

A. Prepared in accordance with International Financial Reporting Standards ("IFRS")

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	(Unaudited) Six months ended 30 June 2005 RMB'000	Restated 2004 RMB'000	2005 US$'000	2005 vs 2004 Increase/ (Decrease) %
			(note 2)	*(note 16)*	
Traffic revenues					
Passenger		7,479,529	7,038,094	903,707	6.3
Cargo and mail		2,260,641	1,955,581	273,139	15.6
Other operating revenues		620,877	479,276	75,017	29.5
Turnover	3	10,361,047	9,472,951	1,251,863	9.4
Other operating income, net	4	99,732	94,363	12,050	5.7
Operating expenses					
Wages, salaries and benefits		(747,912)	(755,914)	(90,366)	(1.1)
Take-off and landing charges		(1,561,415)	(1,509,209)	(188,656)	3.5
Aircraft fuel		(3,324,323)	(2,356,769)	(401,658)	41.1
Food and beverages		(383,240)	(355,091)	(46,305)	7.9
Aircraft depreciation and operating leases		(1,702,733)	(1,778,211)	(205,731)	(4.2)
Other depreciation, amortisation and operating leases		(268,699)	(228,812)	(32,465)	17.4
Aircraft maintenance		(770,300)	(590,140)	(93,071)	30.5
Commissions		(405,049)	(292,772)	(48,940)	38.3
Office and administration		(807,916)	(509,040)	(97,615)	58.7
Others		(483,524)	(393,880)	(58,421)	22.8
Total operating expenses		(10,455,111)	(8,769,838)	(1,263,228)	19.2

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	(Unaudited) Six months ended 30 June 2005 RMB'000	Restated 2004 RMB'000	2005 US$'000	2005 vs 2004 Increase/ (Decrease) %
			(note 2)	*(note 16)*	
Operating profit		5,668	797,476	685	(99.3)
Finance costs, net		(433,868)	(339,149)	(52,422)	27.9
Share of results of associates		(12,687)	7,384	(1,533)	(271.8)
(Loss)/profit before income tax		(440,887)	465,711	(53,270)	(194.7)
Income tax expenses	5	(34,419)	(66,434)	(4,158)	(48.2)
(Loss)/profit for the period		(475,306)	399,277	(57,428)	(219.0)
Attributable to:					
(Loss)/profit attributable to shareholders		(471,417)	345,629	(56,958)	(236.4)
Minority interests		(3,889)	53,648	(470)	(107.2)
		(475,306)	399,277	(57,428)	(219.0)
(Loss)/earnings per share					
– Basic and diluted	6	(RMB0.097)	RMB0.071	(US$0.012)	

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Note	(Unaudited) 30 June 2005 RMB'000	(Audited) 31 December 2004 RMB'000	(Unaudited) 30 June 2005 US$'000
			(note 2)	(note 16)
Non-current assets				
Fixed assets	9	37,729,107	30,220,319	4,558,582
Construction in progress		205,027	188,654	24,772
Lease prepayments		908,804	828,808	109,805
Investments in associates		681,272	656,190	82,314
Goodwill	10	902,880	36,303	109,090
Advances on aircraft and fight equipment		6,563,301	2,678,603	793,004
Other long-term receivables and investments		2,876,727	2,202,606	347,578
Deferred tax assets		452,899	395,465	54,721
Derivative assets		80,977	11,571	9,784
		50,400,994	37,218,519	6,089,650
Current assets				
Flight equipment spare parts less allowance for obsolescence		784,054	523,186	94,733
Trade receivables less allowance for doubtful accounts	11	1,620,278	1,462,672	195,769
Prepayments, deposits and other receivables		1,469,068	1,108,964	177,499
Cash and cash equivalents		2,705,656	2,114,447	326,908
		6,579,056	5,209,269	794,909
Current liabilities				
Trade payables	12	238,816	64,718	28,855
Notes payables	12	1,907,628	838,337	230,487
Sales in advance of carriage		693,865	719,957	83,836
Other payables and accrued expenses		9,043,929	5,353,649	1,092,724
Dividend payable		97,339	–	11,761
Current portion of obligations under finance leases		2,259,028	1,189,648	272,945
Current portion of long-term bank loans		2,536,401	3,193,432	306,458
Tax payable		212,190	162,606	25,638
Short-term bank loans		12,896,887	6,188,919	1,558,254
		29,886,083	17,711,266	3,610,958
Net current liabilities		(23,307,027)	(12,501,997)	(2,816,049)
Total assets less current liabilities		27,093,967	24,716,522	3,273,601

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Note	(Unaudited) 30 June 2005 RMB'000	(Audited) 31 December 2004 RMB'000	(Unaudited) 30 June 2005 US$'000
			(note 2)	*(note 16)*
Capital and reserves attributable to the Company's equity holders				
Share capital		4,866,950	4,866,950	588,044
Other reserves		1,141,453	1,066,396	137,915
Retained earnings		423,015	948,898	51,110
		6,431,418	6,882,244	777,069
Minority interest		737,319	831,208	89,086
Total equity		7,168,737	7,713,452	866,155
Non-current liabilities				
Obligations under finance leases		9,090,452	7,472,638	1,098,345
Long-term bank loans		8,005,667	7,542,828	967,277
Derivatives liabilities		78,524	119,643	9,487
Other long-term liabilities		2,750,587	1,867,961	332,337
		19,925,230	17,003,070	2,407,446
		27,093,967	24,716,522	3,273,601

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2005

(Unaudited)	Attributable to equity holders of the Company: Share Capital RMB'000	Other Reserves RMB'000	Retained Earnings RMB'000	Minority Interest RMB'000	Total Equity RMB'000
Balance as at					
1 January 2005, as previously presented	4,866,950	1,066,396	948,898	–	6,882,244
Re-presentation as a result of the adoption					
of the revised IAS1 and IAS27 *(note 1)*	–	–	–	831,208	831,208
Effect of changes in accounting					
policy *(note 1)*	–	–	42,873	–	42,873
Balance as at 1 January 2005	4,866,950	1,066,396	991,771	831,208	7,756,325
Net gains not recognised in the					
income statement					
– Unrealised gains on cash flow hedges	–	75,057	–	–	75,057
Loss for the period	–	–	(471,417)	(3,889)	(475,306)
Dividend relating to 2004	–	–	(97,339)	(90,000)	(187,339)
Balance as at 30 June 2005	4,866,950	1,141,453	423,015	737,319	7,168,737
Balance as at					
1 January 2004, as previously presented	4,866,950	1,013,242	501,959	–	6,382,151
Re-presentation as a result of the adoption					
of the revised IAS1 and IAS27 *(note 1)*	–	–	–	734,500	734,500
Balance as at 1 January 2004	4,866,950	1,013,242	501,959	734,500	7,116,651
Net gains not recognised in the					
income statement					
– Unrealised gains on cash flow hedges	–	39,547	–	–	39,547
Profit for the period *(note 2)*	–	–	345,629	53,648	399,277
Balance as at 30 June 2004	4,866,950	1,052,789	847,588	788,148	7,555,475

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June		
(Unaudited)	2005 RMB'000	2004 RMB'000	2005 US$'000
			(note 16)
Net cash generated from operating activities	727,590	1,813,810	87,910
Net cash used in investing activities	(4,173,129)	(1,964,933)	(504,214)
Net cash generated from financing activities	4,054,520	43,753	489,883
Net increase/(decrease) in cash and cash equivalents	608,981	(107,370)	73,579
Cash and cash equivalents at 1 January	2,114,447	1,582,780	255,476
Exchange adjustment	(17,772)	(2,864)	(2,147)
Cash and cash equivalents at 30 June	2,705,656	1,472,546	326,908

Analysis of the balances of cash and cash equivalents

	30 June 2005 RMB'000	30 June 2004 RMB'000	30 June 2005 US$'000
			(note 16)
Cash and bank balances	2,701,245	1,497,775	326,375
Short-term deposits with an associate	93,217	58,845	11,263
Less: short-term deposits with original maturities over three months	(88,806)	(84,074)	(10,730)
	2,705,656	1,472,546	326,908

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements comprise the consolidated financial statements of the Company and all its subsidiaries (the "Group") at 30 June 2005 and of their results for the six months ended 30 June 2005. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular, International Accounting Standard ("IAS") 34 Interim Financial Reporting. This basis of accounting differs in certain material respects from that used in the preparation of the Group's interim financial statements in the People's Republic of China ("PRC"), which are prepared in accordance with the accounting and the relevant regulations applicable in the PRC ("PRC Accounting Regulations"). Differences between PRC Accounting Regulations and IFRS on the unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2005 and on the unaudited condensed consolidated net assets at 30 June 2005 are set out in Section C.

The accounting polices used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2004 except for those modified by the Group as a result of the adoption of the new revised IFRS.

In 2005, the Group adopted the new revised IFRS below, which are relevant to its operation. The adoption of the IFRS did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 and 27 (both revised in 2003) have affected the presentation of minority interest. IAS 1 (revised in 2003) also has affected the presentation of share of profit of associates and other disclosures.

- IAS 2, 8, 10, 16, 17, 21, 28, 32, 33 (all revised in 2003) and 39 (revised in 2004), IFRS 2 and 5 had no material effect on the Group's policies.

- The Company adopted IFRS 3 on 31 March 2004. As a result of adopting IFRS 3, the Group ceased amortisation of goodwill and negative goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the costs of goodwill. From 1 January 2005 onwards, goodwill arising from all acquisitions is tested annually for impairment, as well as when there are indications of impairment. The negative goodwill is derecognised as at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings. Negative goodwill of RMB42,873,000 has been derecognised and credited to the opening balance of retained earnings as at 1 January 2005.

2. Comparatives

The interim results for the six months ended 30 June 2004 have been restated for the purposes of this report to reflect corrections made in connection with (1) the rescission of certain related party lease arrangements (as described in note 38(c) to the financial statements of the Company's 2004 annual report) and (2) certain changes in the recognition of lease benefit received upon termination of a finance lease (as described below). These corrections have already been made with respect to, and are fully reflected in, the Company's annual audited financial statements for the year ended 31 December 2004, which contain the corrected actual net profit and other corrected figures.

As described in the Company's 2004 annual report, in January 2004, the Company exercised its right to purchase an aircraft upon settlement and termination of an aircraft finance lease arrangement and received a lease rebate from the third party lessor. The previously reported financial results for the six months ended 30 June 2004 recognised the lease rebate as other operating income. It was determined that for accounting purposes, in accordance with IFRS, the lease rebate should have been recognised as an adjustment to the carrying value of the purchased aircraft.

As a result of the restatement for the aforementioned items, (i) turnover was increased by RMB149,870,000, (ii) other operating income was reduced by RMB98,921,000, (iii) operating expenses were increased by RMB192,285,000, and (iv) net profit after tax was reduced by RMB134,232,000 for the six months ended 30 June 2004 from the previously reported results.

In addition to the above restatement, the 2004 comparative numbers have also been amended as required, in accordance with the relevant requirements and current period classification.

3. Turnover

The Group is principally engaged in the provision of domestic, Hong Kong Special Administrative Region ("Hong Kong") and international passenger, cargo and mail airline services. Turnover comprises revenues from airline and related services net of sales tax. The turnover and segment results by geographical segments are analysed as follows:–

(Unaudited)	For the six months ended 30 June 2005				
	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries(*) RMB'000	Total RMB'000
2005					
Traffic revenues					
– Passenger	3,659,559	1,134,546	674,601	2,010,823	7,479,529
– Cargo and mail	111,628	295,613	320,658	1,532,742	2,260,641
	3,771,187	1,430,159	995,259	3,543,565	9,740,170
Other operating revenues	586,971	8,124	5,653	20,129	620,877
Turnover	4,358,158	1,438,283	1,000,912	3,563,694	10,361,047
Segment results	(306,452)	96,120	11,592	104,676	(94,064)
Unallocated income					99,732
Operating profit					5,668
2004					
Traffic revenues					
– Passenger	3,904,170	1,047,235	657,213	1,429,476	7,038,094
– Cargo and mail	145,533	245,381	349,079	1,215,588	1,955,581
	4,049,703	1,292,616	1,006,292	2,645,064	8,993,675
Other operating revenues	454,290	6,533	5,086	13,367	479,276
Turnover	4,503,993	1,299,149	1,011,378	2,658,431	9,472,951
Segment results	20,659	105,364	238,841	338,249	703,113
Unallocated income					94,363
Operating profit					797,476

* *includes United States of America, Europe and Asian countries other than Japan.*

4. Other operating income, net

	Note	(Unaudited) For the six months ended 30 June 2005 RMB'000	Restated 2004 RMB'000
			(note 2)
Rental income from subleases of aircraft		**36,693**	41,733
Government subsidies	*(a)*	**63,039**	52,630
		99,732	94,363

(a) The government subsidies represent (i) subsidies granted by local government to the Company in consideration of the relocation of the Company's international flights and related facilities from Hongqiao Airport to Pudong International Airport and (ii) subsidies granted by various local municipalities to encourage the Group to operate certain routes with lower profitability.

5. Taxation

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

	(Unaudited) For the six months ended 30 June 2005 RMB'000	Restated 2004 RMB'000
		(note 2)
Provision for PRC income tax - current period	**26,857**	52,963
Deferred taxation	**7,562**	13,471
	34,419	66,434

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

(ii) The Company has three major subsidiaries, namely China Cargo Airlines Co., Ltd. ("China Cargo"), China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu") and Shanghai Eastern Logistics Co., Ltd. ("Eastern Logistics"). Pursuant to the Circular (2000) No.52 jointly issued by Shanghai Municipal Financial Bureau and Shanghai Municipal State Tax Bureau, China Cargo is subject to a reduced income tax rate of 15%. CEA Jiangsu is subject to the standard PRC income tax rate of 33%. Pursuant to the Circular Hu Di Shui 2nd Shui (2004) No.68 issued by Shanghai Municipal Administration Local Taxation, Eastern Logistics is exempted from enterprise income tax in 2005.

(b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30 June 2005 as there exists double tax relief between PRC and the corresponding jurisdictions (including Hong Kong).

6. (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the unaudited consolidated loss attributable to shareholders of RMB471,417,000 (2004: earnings of RMB345,629,000, as restated) and 4,866,950,000 (2004: 4,866,950,000) shares in issue during the period. The Company has no potential dilutive ordinary shares.

7. Dividends

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

8. Profit appropriation

No appropriations from retained profits were made to the statutory reserves during the six months ended 30 June 2005. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

9. Fixed assets

(Unaudited)	Aircraft and flight equipment RMB'000	Buildings, other fixed assets and equipment RMB'000	Total RMB'000
Valuation			
At 1 January 2005	38,107,544	4,575,372	42,682,916
Transfer from construction in progress	–	121,377	121,377
Additions through business acquisition *(note 14)*	6,937,182	269,195	7,206,377
Other additions	1,312,327	145,456	1,457,783
Disposals	(14,936)	(235,473)	(250,409)
At 30 June 2005	46,342,117	4,875,927	51,218,044
Accumulated depreciation			
At 1 January 2005	10,938,855	1,523,742	12,462,597
Charge for the period	1,031,424	180,940	1,212,364
Disposals	(13,986)	(172,038)	(186,024)
At 30 June 2005	11,956,293	1,532,644	13,488,937
Net book value at 30 June 2005	**34,385,824**	**3,343,283**	**37,729,107**
Net book value at 31 December 2004	27,168,689	3,051,630	30,220,319

As at 30 June 2005, the title transfer of the fixed assets acquired through business acquisition are still in progress.

10. Goodwill

(Unaudited)	Goodwill RMB'000	Negative Goodwill RMB'000	Total RMB'000
Balance as at 1 January 2005, as previously presented	79,176	(42,873)	36,303
Re-presentation as a result of the adoption of IFRS 3 *(note 1)*	–	42,873	42,873
Balance as at 1 January 2005	79,176	–	79,176
Additions through business acquisition *(note 14)*	823,704	–	823,704
At 30 June 2005	902,880	–	902,880

11. Trade receivables less allowance for doubtful accounts

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

As at 30 June 2005, the aging analysis of the trade receivables was as follows:–

	(Unaudited) 30 June 2005 RMB'000	(Audited) 31 December 2004 RMB'000
Less than 31 days	**950,459**	1,077,804
31 to 60 days	**531,566**	216,236
61 to 90 days	**33,732**	68,845
Over 90 days	**104,521**	99,787
	1,620,278	1,462,672

12. Trade payables and notes payables

As at 30 June 2005 and 31 December 2004, all trade payables were current balances and aged within 30 days.

As at 30 June 2005 and 31 December 2004, all notes payables were unsecured, interest free and repayable in six months.

13. Commitments

(a) Capital commitments

The Group had the following capital commitments:–

	(Unaudited) 30 June 2005 RMB'000	(Audited) 31 December 2004 RMB'000
Authorised and contracted for:–		
– Aircraft and related equipment	**37,649,478**	8,791,472
– Other	**387,787**	437,574
	38,037,265	9,229,046
Authorised but not contracted for:–		
– Aircraft and related equipment	**18,834,003**	3,533,000
– Other	**1,889,998**	2,381,710
	20,724,001	5,914,710
	58,761,266	15,143,756

The above commitments mainly include amounts relating to the acquisition of five A-319, six A-320, thirteen A-321, twenty A-330, six B-737, two B-747, fifteen B-787 and five ERJ-145 aircraft for delivery between 2005 to 2010.

(b) Operating lease commitments

The Group had commitments under operating leases to pay future minimum lease rentals as follows:–

	(Unaudited) 30 June 2005		(Audited) 31 December 2004	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Within one year	**1,593,599**	**45,627**	1,024,857	19,287
In the second year	**1,168,518**	**19,900**	1,095,792	14,874
In the third to fifth year inclusive	**3,710,623**	**29,127**	3,094,495	25,401
After the fifth year	**815,390**	**4,753**	550,310	22,139
	7,288,130	**99,407**	5,765,454	81,701

14. Business acquisition

On 30 June 2005, pursuant to an acquisition agreement ("Acquisition Agreement") entered between the Company, CEA Holding, China Eastern Air Northwest Company ("CEA Northwest") and China Eastern Air Yunnan Company ("CEA Yunnan"), both of which are wholly owned subsidiaries of CEA Holding, and upon approval by the Company's shareholders in the Company Annual General Meeting, the Company acquired certain assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan. The aggregate acquisition price paid by the Company under the Acquisition Agreement is RMB985,692,800, with adjustment by the operating results of the aviation businesses of CEA Northwest and CEA Yunnan during the period from 31 December 2004 to 30 June 2005 as determined under PRC Accounting Regulations. The net consideration, including amount payable in cash and forgiveness of certain receivable, was RMB796,618,000 for the acquisition of the aviation businesses of CEA Northwest and CEA Yunnan.

The goodwill is attributable to an increase in the Company's competitiveness as a result of its increased size and the extension of the business scope geographically to the north-western and southern-western regions of the PRC.

The Group's operating results do not include the operations of the CEA Northwest and CEA Yunnan as the acquisition was effective on 30 June 2005.

Details of net liabilities assumed from CEA Northwest and related goodwill are as follows:–

	RMB'000
Purchase consideration:	
– Receivable	(635,105)
– Receivable waived	34,325
– Direct costs relating to the acquisition	14,289
Total purchase consideration	(586,491)
Fair value of net liabilities assumed – shown as below	1,042,572
Goodwill	456,081

The assets and liabilities arising from the acquisition are as follows:–

	Fair value RMB'000	Acquirees' carrying amount RMB'000
Cash and cash equivalents	409,023	409,023
Fixed assets *(note 9)*	2,986,199	2,986,199
Construction in progress	2,371	2,371
Lease prepayments	74,339	74,339
Investments in associates	1,172	1,172
Other long-term receivables	733,135	698,353
Deferred tax assets	71,907	67,719
Flight equipment spare parts	105,284	105,284
Trade receivables, prepayment, deposits and other receivables	67,781	67,781
Trade payables, notes payables, other payable and accrued expenses	(1,823,817)	(1,823,817)
Sales in advance of carriage	(1,702)	(1,702)
Short-term bank loans	(526,590)	(526,590)
Obligations under finance leases	(2,515,423)	(2,452,724)
Other long-term liabilities	(626,251)	(626,251)
Net liabilities assumed	(1,042,572)	(1,018,843)
Purchase consideration settled in cash		–
Cash and cash equivalents in business acquired		409,023
Cash inflow on acquisition		409,023

Details of net assets acquired from CEA Yunnan and related goodwill are as follows:–

	RMB'000
Purchase consideration:	
– Cash *(note a)*	1,325,954
– Receivable waived	41,476
– Direct costs relating to the acquisition	15,679
Total purchase consideration	1,383,109
Fair value of net assets acquired - shown as below	(1,015,486)
Goodwill	367,623

The assets and liabilities arising from the acquisition are as follows:–

	Fair value RMB'000	Acquirees' carrying amount RMB'000
Cash and cash equivalents	219,990	219,990
Fixed assets *(note 9)*	4,220,178	4,220,178
Construction in progress	11,206	11,206
Investments in associates	4,632	4,632
Other long-term receivables	44,269	44,269
Deferred tax assets	54,789	54,789
Flight equipment spare parts	128,895	128,895
Trade receivables, prepayment, deposits and other receivables	186,083	186,083
Trade payables, other payable and accrued expenses	(1,093,470)	(1,093,470)
Current portion of long-term bank loans	(284,901)	(284,901)
Tax payable	(26,319)	(26,319)
Short-term bank loans	(1,618,013)	(1,618,013)
Other long-term liabilities	(831,853)	(831,853)
Net assets acquired	1,015,486	1,015,486

Purchase consideration settled in cash *(note a)*	–
Cash and cash equivalents in business acquired	219,990
Cash inflow on acquisition	219,990

(a) The cash consideration has not been paid as at 30 June 2005.

15. Related party transactions

The Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC. The Group sells tickets through sales agents and thus, is likely to have extensive transactions with the employees of state controlled entities while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the large volume and the pervasiveness of these transactions, the management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. Management believes that meaningful related party disclosures have been adequately made.

In addition to the business acquisition as described in note 14, the Group has entered into the following significant transactions in the normal course of business during the period:–

		(Unaudited) For the six months ended 30 June	
		2005	2004
Nature of transaction	Related party	RMB'000	RMB'000
(i) With CAAC and its affiliates:–			
Commission income on carriage service provided by other airlines with air tickets sold by the Group at fixed rates ranging from 3% to 9% of value of tickets sold	PRC airlines	**55,414**	41,055
Take-off and landing fees charged at predetermined scale of rates published by CAAC	PRC airports	**717,003**	729,098
Purchase of aircraft fuel at State controlled prices	Civil Aviation Oil Supply Company	**2,314,435**	1,742,690
Civil aviation infrastructure levies collected on behalf of CAAC	CAAC	**136,558**	57,767
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	PRC airlines	**4,877**	1,957

Nature of transaction	Related party	(Unaudited) For the six months ended 30 June 2005 RMB'000	2004 RMB'000
(i) With CAAC and its affiliates:– (Cont'd)			
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	**67,957**	75,996
(ii) With CEA Holding or companies directly or indirectly held by CEA Holding:–			
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts and other fixed assets, and repair of engines	Eastern Aviation Import & Export Co., Ltd.	**13,053**	12,230
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	– CEA Northwest	**6,507**	4,898
	– CEA Yunnan	**5,273**	8,170
	– China Eastern Wuhan Airlines Co., Ltd. ("CEA Wuhan Airlines")	**4,141**	4,723
	– China Eastern Air Development (HK) Ltd.	**6,672**	–
	– Shanghai Dongmei Aviation Transportation Co., Ltd.	**3,346**	2,897
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited	**20,000**	29,075
Repair and maintenance expenses for aircraft and engines	Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	**26,667**	19,464
Lease rental income from operating lease of aircraft	– CEA Yunnan	**24,510**	–
	– CEA Wuhan Airlines	**12,184**	20,858

Nature of transaction	Related party	(Unaudited) For the six months ended 30 June 2005 RMB'000	2004 RMB'000
(ii) With CEA Holding or companies directly or indirectly held by CEA Holding:– (Cont'd)			
Lease rental charges for operating lease of aircraft	– CEA Northwest	**–**	243,216
	– CEA Yunnan	**–**	56,212
	– Nanjing Airlines Co., Ltd.	**–**	22,348
Lease rental charges for equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**2,563**	3,359
Source of food and beverages	– Shanghai Eastern Air Catering Co., Ltd.	**94,848**	57,444
	– China Eastern Airlines Shantou Economic Development Co., Ltd.	**33,503**	20,000
Advertising expenses	Eastern Aviation Advertising Service Co., Ltd.	**3,454**	382
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**1,020**	12,212

16. Convenience translation

The unaudited consolidated financial statements have been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into United States dollars ("US$") solely for convenience have been made at the rate of US$1.00 to RMB8.2765 being the average of the buying and selling rates as quoted by People's Bank of China at the close of business on 30 June 2005. No representation is made that the RMB amounts could have been or could be converted into US$ at that rate or at any other rate on 30 June 2005 or any other date.

17. Working capital

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

The Group generally operates with a working capital deficit. The Directors believe that cash from operations and short-term bank borrowings will be sufficient to meet the Group's operating cash flow needs for the foreseeable future. The Group's treasury department aims to maintain flexibility in funding by keeping credit lines available. The Directors believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes.

18. Post balance sheet date event

On 23 August 2005, the Company issued short-term debentures in the PRC with a total principal amount of RMB2,000 million and a unit face value of RMB100 each. The first tranche of RMB1,000 million were issued at an agreed issue price being received by the Company of RMB97.16 per debenture, with a maturity period of 365 days. The second tranche of RMB1,000 million were issued at an agreed issue price being received by the Company of RMB98.00 per debenture, with a maturity period of 9 months. The debentures issued do not carry any interest.

The proceeds from issue of debentures will be used, as currently contemplated, as the Company's working capital and will be principally used for the procurement of aviation fuel and aviation equipment.

B. Prepared in accordance with the People's Republic of China (the "PRC") Accounting Regulations

Consolidated Balance Sheet

	(Unaudited) 30 June 2005 RMB'000	(Audited) 31 December 2004 RMB'000
Assets		
Total Current Assets	10,725,771	8,235,491
Net Long-term Investments	722,350	675,312
Total Fixed Assets	41,918,418	30,861,698
Total Intangible Assets & Other Assets	1,598,232	1,483,511
Deferred Tax Debits	124,439	139,592
Total Assets	55,089,210	41,395,604
Liabilities & Shareholders' Equity		
Total Current Liabilities	31,035,084	18,953,049
Total Long-term Liabilities	17,659,575	15,599,801
Deferred Tax Credits	366,434	329,766
Total Liabilities	49,061,093	34,882,616
Minority Interests	713,854	714,814
Total Shareholders' Equity	5,314,263	5,798,174
Total Liabilities & Shareholders' Equity	55,089,210	41,395,604

Consolidated Profit and Loss Account

Items		(Unaudited) For the six months ended 30 June 2005 RMB'000	2004 RMB'000
I.	**Revenue from Main Operations:**	**10,040,427**	9,170,592
	Less: Revenue for Civil Air Infrastructure Construction Fund	**0**	0
	Revenue from Main Operations, net	**10,040,427**	9,170,592
	Less: Main Operating Cost	**8,778,673**	7,334,316
	Business Taxes and surtaxes	**226,848**	243,854
II.	**Profit from Main Operations**	**1,034,906**	1,592,422
	Add: Revenue from other Operations	**325,178**	364,568
	Less: Operating Expenses	**747,708**	660,669
	General & Administrative Expenses	**585,727**	462,521
	Financial Expenses	**427,513**	343,966
III.	**Profit/(Loss) from Operations**	**(400,864)**	489,834
	Add: Income from Investment	**(13,490)**	11,042
	Subsidy Income	**61,591**	53,000
	Non-operating Income	**16,607**	94,979
	Less: Non-operating Expenses	**(5,610)**	3,355
IV.	**Total Profit/(Loss)**	**(330,546)**	645,500
	Less: Income Tax	**78,507**	92,392
	Minority Interest (for consolidated statements)	**1,401**	64,395
V.	**Net Profit/(Loss)**	**(410,454)**	488,713

Notes to Financial Statements

1. General

China Eastern Airlines Corporation Limited ("the Company") was established in April 1995 by the sole sponsorship of Eastern Air Group Company. As approved by State Reformation Commission and State Council Securities Commission pursuant to the Circular No. 180 (1996) and to the Circular No. 4 (1997) in Feb. 1997, the Company successfully listed in Hong Kong and New York stock market with 1,566,950,000 H shares issued. 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. Significant Accounting Policies

2.1 Accounting policies applied

The Company and its subsidiaries have adopted the *Accounting Standards*, the *Accounting Regulations for Business Enterprises* and the supplementary regulations thereto and the *Accounting Treatment for Civil Aviation Industry*.

2.2 Accounting period

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

2.3 Recording currency

The recording currency of the Company is the Renminbi ("RMB").

2.4 Basis of accounting and principle of measurement

The Company has adopted the accrual basis of accounting and uses the historical cost convention as the principle of measurement. 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*.

2.5 Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling on the first date of the month in which the transactions take place. 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 directly relating to the purchase or construction of fixed assets (including exchange differences on borrowed funds specifically for the purchase or construction of fixed assets) before they are ready for use are capitalized as part of the cost of the fixed assets. Exchange differences during preparation period are included in long-term amortization charges and accounted as current profit and loss of the month during which formal operation starts. Exchange differences in normal operations are dealt with in the income statement.

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 to known amounts of cash and which are subject to an insignificant risk on change 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 declared but unpaid or bonds interest due but unpaid. Cash dividends or interests are offset against the carrying amount of investments upon receipt during holding period. On disposal of a current investment, the difference between the carrying amount and the sale proceeds is recognized as an investment gain or loss in the current period.

2.7.2 The current investment is recorded at the lower of cost and market value at the end of each period. Where the market value is lower than cost, the difference is recognized as a provision for decline in value of current investment and accounted as current profit and loss, which is calculated and determined on the basis of individual classes of investments.

2.8 Accounting method for bad debts

2.8.1 The Company has adopted 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 proves 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.

Aging	Ratio
Within 1 year	3‰
In the second year	5%
In the third year	10%
In the forth 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. The irrecoverable amount of a debtor who is bankrupt or dead and has insufficient estate to repay.

b. The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

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.

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.

Considering the special accounting treatment of high-price rotables, no provision for impairment is made for high-price rotables under normal situation except when the corresponding aircrafts have all been disposed of which may cause the net realizable value lower than the net book value in future disposal.

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.

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. Construction in progress is transferred to fixed assets when it is ready for its intended use. Those specific borrowing costs incurred for the construction of the fixed assets, which include foreign exchange differences, are capitalized during the construction period. Having reached the working conditions for its intended use, the costs should be recognized as current period expenses.

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 of the estimated expenditure for different types of aircraft. 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.

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.

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 has adopted 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.

C. Significant differences between IFRS and PRC Accounting Regulations

The Group's accounting policies, which conform with IFRS, differ in certain respects from PRC Accounting Regulations. Differences between IFRS and PRC Accounting Regulations which have significant effects on the unaudited consolidated (loss)/profit attributable to shareholders and the unaudited consolidated net assets are summarised as follows:–

Consolidated (loss)/profit attributable to shareholders

	For the six months ended 30 June	
		Restated
	2005	2004
	RMB'000	RMB'000
As stated in accordance with PRC Accounting Regulations	(410,454)	488,713
Impact of IFRS and other adjustments:		
Difference in depreciation charges for other flight equipment due to different depreciation lives	41,862	144,574
Difference in depreciation charges for aircraft due to different depreciation lives and revaluation	(88,093)	(81,110)
Gain/(loss) on disposal of aircraft and engines	836	(2,920)
Provision for overhaul expenses	(117,913)	(143,804)
Reversal of additional charges for flight equipment spare parts arising from the revaluation surplus of such assets	3,165	3,089
Provision for post-retirement benefits	(7,778)	(11,267)
Staff housing benefits	7,837	3,640
Interest accrued on instalments payable for acquisition of an airlines business	(3,786)	(4,805)
Reversal of revalued amount for land use rights	5,531	4,437
Fair value change in derivative financial instruments	38,373	–
Amortisation of goodwill	–	(2,828)
Amortisation of negative goodwill	–	1,726
Others	14,908	(65,649)
Tax adjustments	44,095	11,833
As stated in accordance with IFRS	(471,417)	345,629

Consolidated net assets attributable to equity holders of the Company

	30 June 2005 RMB'000	31 December 2004 RMB'000
As stated in accordance with PRC Accounting Regulations	**5,314,263**	5,798,174
Impact of IFRS and other adjustments:		
Difference in depreciation charges for other flight equipment due to different depreciation lives	**1,501,697**	1,361,373
Difference in depreciation charges for aircraft due to different depreciation lives	**2,443,210**	2,023,390
Loss on disposal of aircraft and engines	**(504,863)**	(505,699)
Provision for overhaul expenses	**(633,824)**	(801,034)
Reversal of additional charges for flight equipment spare parts arising from the revaluation surplus of such assets	**(31,645)**	(34,810)
Provision for post-retirement benefits	**(1,114,737)**	(588,394)
Provision for staff housing benefits	**33,823**	25,986
Time value on instalments payable for acquisition of an airlines business	**16,010**	19,796
Goodwill	**902,880**	79,172
Negative goodwill	**–**	(42,869)
Reversal of revalued amount for land use right	**(352,240)**	(357,771)
Revaluation deficit of fixed assets	**(68,367)**	(68,367)
Loss on sale of staff quarters	**24,373**	24,373
Unrealised losses on cash flow hedges	**(16,803)**	(91,861)
Record of fair value of fuel option hedging contract	**38,372**	–
Revaluation deficit of assets and liabilities	**(1,247,597)**	–
Others	**31,903**	116,613
Tax adjustments	**94,963**	(75,828)
As stated in accordance with IFRS	**6,431,418**	6,882,244

SELECTED AIRLINE OPERATING DATA

	For the six months ended 30 June		
	2005	2004	Change
Capacity			
ATK (available tonne-kilometres) (millions)	**3,699.27**	3,312.94	11.66%
– Domestic routes	**1,096.87**	1,222.77	-10.30%
– International routes	**2,228.94**	1,759.38	26.69%
– Hong Kong routes	**373.46**	330.79	12.90%
ASK (available seat-kilometres) (millions)	**20,918.83**	19,985.52	4.67%
– Domestic routes	**9,329.84**	10,147.83	-8.06%
– International routes	**9,059.40**	7,374.61	22.85%
– Hong Kong routes	**2,529.59**	2,463.08	2.70%
AFTK (available freight tonne-kilometres) (millions)	**1,816.58**	1,514.24	19.97%
– Domestic routes	**257.18**	309.47	-16.90%
– International routes	**1,413.59**	1,095.67	29.02%
– Hong Kong routes	**145.80**	109.11	33.63%
Hours flown (thousands)	**179.99**	174.84	2.95%
Traffic			
RTK (revenue tonne-kilometres) (millions)	**2,165.44**	1,990.10	8.81%
– Domestic routes	**719.64**	777.13	-7.40%
– International routes	**1,239.06**	1,030.83	20.20%
– Hong Kong routes	**206.74**	182.14	13.51%
RPK (revenue passenger-kilometres) (millions)	**13,586.73**	12,603.14	7.80%
– Domestic routes	**6,514.29**	6,877.42	-5.28%
– International routes	**5,451.77**	4,310.46	26.48%
– Hong Kong routes	**1,620.67**	1,415.26	14.51%
RFTK (revenue freight tonne-kilometres) (millions)	**953.10**	861.87	10.59%
– Domestic routes	**136.78**	161.07	-15.08%
– International routes	**754.29**	645.28	16.89%
– Hong Kong routes	**62.03**	55.52	11.73%
Number of passengers carried (thousands)	**8,753.15**	8,290.88	5.58%
– Domestic routes	**6,015.14**	6,044.28	-0.48%
– International routes	**1,584.98**	1,235.52	28.28%
– Hong Kong routes	**1,153.03**	1,011.08	14.04%

	For the six months ended 30 June		
	2005	2004	Change
Weight of freights carried (kg) (millions)	**318.99**	310.81	2.63%
– Domestic routes	**111.40**	129.14	-13.74%
– International routes	**165.00**	143.64	14.87%
– Hong Kong routes	**42.59**	38.03	11.99%
Load factor			
Overall load factor (%)	**58.54**	60.07	-1.53 points
– Domestic routes	**65.61**	63.55	2.06 points
– International routes	**55.59**	58.59	-3.00 points
– Hong Kong routes	**55.36**	55.06	0.30 points
Passenger load factor (%)	**64.95**	63.06	1.89 points
– Domestic routes	**69.82**	67.77	2.05 points
– International routes	**60.18**	58.45	1.73 points
– Hong Kong routes	**64.07**	57.46	6.61 points
Freight load factor (%)	**52.47**	56.92	-4.45 points
– Domestic routes	**53.18**	52.05	1.13 points
– International routes	**53.36**	58.89	-5.53 points
– Hong Kong routes	**42.54**	50.88	-8.34 points
Break-even load factor (%)	**63.11**	58.14	4.97 points
Yield and costs			
Revenue tonne-kilometers yield (RMB)	**4.50**	4.52	-0.44%
– Domestic routes	**5.24**	5.21	0.58%
– International routes	**3.66**	3.54	3.39%
– Hong Kong routes	**6.92**	7.10	-2.54%
Passenger-kilometers yield (RMB)	**0.55**	0.56	-1.79%
– Domestic routes	**0.56**	0.57	-1.75%
– International routes	**0.49**	0.48	2.08%
– Hong Kong routes	**0.70**	0.74	-5.41%
Freight tonne-kilometers yield (RMB)	**2.37**	2.27	4.41%
– Domestic routes	**0.82**	0.90	-8.89%
– International routes	**2.46**	2.42	1.65%
– Hong Kong routes	**4.77**	4.42	7.92%
Available tonne-kilometers unit cost (RMB)	**2.83**	2.65	6.77%

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

As at 30 June 2005, the Group operated a total of 221 routes, of which 144 were domestic routes, 15 were Hong Kong routes, and 62 were international routes (including 12 international cargo routes). The Group operated approximately 3,249 scheduled flights per week, serving 90 domestic and foreign cities. At present, the Group operates a total of 116 aircraft, including 108 passenger jet aircraft each with a capacity of over 100 seats and 8 jet freighters. As at 30 June 2005, the Group, in conjunction with China Eastern Air Northwest Company and China Eastern Air Yunnan Company, operated a total of 176 aircraft, including 163 passenger jet aircraft each with a capacity of over 100 seats, 5 passenger jet aircraft each with a capacity of over 50 seats, and 8 jet freighters.

During the first half of 2005, while the pace of global economic growth was slowing down, a new round of macro-economic adjustments in China achieved noticeable results. The national economy retained its vigour with an appropriate reduction of its heat and progressed with a healthy and stable momentum. The market demand for air transport in China remained stable. However, the international crude oil price has been reaching record highs since the previous year. The lengthy peak-level fluctuation of aviation fuel price has brought about a significant increase in cost for the international air transport industry. As a result, the results of the Group have been affected significantly.

During the first half of the year, in the face of intensifying market competition, the Group continued to build an air transport network centered on Shanghai through a rational allocation of its transport capacity, and accomplished an increase of its share in the Shanghai aviation market. As of the end of the first half of the year, the Group's scheduled flights accounted for 40.18% and 34.47% of all scheduled flights at Hongqiao Airport and Pudong Airport, respectively. The daily average utilization rate reached 9.8 hours.

In terms of passenger traffic, the Group successfully introduced new international routes for scheduled flights, such as Shanghai – Moscow, Beijing – Pudong – Mumbai, and Beijing – Kunming – Dakar, thus further improving our international route network. Through internal code-sharing, we provided the "one-ticket service" in inland cities such as Harbin and Shenyang. While providing convenience for our customers, the service boosted the coverage of the Group's flights from the hub airports in Shanghai and achieved preliminary results for its transfer and connection businesses. The Group also started a code-sharing arrangement with Air Europa（西班牙歐洲航空公司）and the Thai Airways（泰國航空公司）, signalling its increasing cooperation with foreign airlines. In addition, the Group established an operating office in Hong Kong and expanded its Eastern Miles frequent flyers and electronic air ticketing service. At present, the number of frequent flyers has surpassed 4.99 million. On top of its direct sales outlets established in 22 cities in the previous year, the Group added another 15 cities to its electronic ticketing network coverage, hence achieving a significant increase in the sale of electronic tickets.

In terms of freight transport, the Group continued to bring into play the advantage of Shanghai as an aviation hub and endeavoured to build a customer-oriented freight logistic network based on the Group's airline routes. Through a centralized management of the cargo traffic sale, the freight management department of the Company worked with China Cargo Airlines Co., Ltd.(中國貨運航空有限公司) and Shanghai Eastern Logistics Co., Ltd.(上海東方遠航物流有限公司), both subsidiaries of the Company, to actively open up new cargo sources and enhance the yield on freight service as well as its revenue. We also developed an air-to-land transhipment service by running scheduled freight vehicles from Shanghai to its peripheral cities. This effectively augmented the Group's share in Shanghai's freight market and set up new points of profit growth.

In terms of service, the Group established a service quality control department to take charge of the governance of quality service and the innovation of brand building. By improving the incentive and retention mechanism in respect of normal flight operation made effort to improve, on-time rate. According to statistics of the Civil Aviation Administration of China, in the first half of the year, the on-time rate of the Group's flights was ahead of the average level of the domestic sector. While continuing to promote the "China Eastern Express", "China Shuttle" and "China Eastern Transfer" as our service brands, the Group adheres to the principle of "keeping close to the market" and keeps on developing new services and products. We launched the services of「溫馨下午茶」("Warm and Fragrant Afternoon Tea") and「地面選餐空中享用」("Inflight Meals Ordered Before Flight") to attract first class and business class passengers. We also expanded the services of「商旅空間」("Business Travel") by including extra services such as advance booking, boarding pass issue on arrival, and advance booking of special services. Regarding after-sale services, the Group provided, through the "95108" service hotline, an unimpeded channel accessible by customers and resolved customers' complaints in an active manner. The brand image was resurging.

As at 30 June 2005, the traffic volume of the Group totalled 2,165 million tonne-kilometres, an increase of 8.81% from the same period last year, while traffic revenues amounted to RMB9,740 million, representing an increase of 8.29%.

The Group's passenger traffic volume during the period was 13,587 million passenger-kilometres, an increase of 7.80% from the same period last year. Compared to the same period last year, passenger revenues increased by 6.28% to RMB7,480 million, accounting for 76.80% of the Group's operating revenues.

The Group's domestic passenger traffic volume during the period was 6,514 million passenger-kilometres, a decrease of 5.28% from the same period last year. Compared to the same period last year, the passenger load factor increased by 2.05 percentage points to 69.82% and the domestic passenger revenues decreased by 6.25% to RMB3,660 million, accounting for 48.93% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.56 during the period, a decrease of 1.75% compared to the same period last year.

The Group's international passenger traffic volume during the period was 5,452 million passenger-kilometres, an increase of 26.48% from the same period last year. Compared to the same period last year, the passenger load factor increased by 1.73 percentage points to 60.18% and the revenues increased by 28.72% to RMB2,685 million, accounting for 35.90% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.49 during the period, an increase of 2.08% compared to the same period last year.

The passenger traffic volume on the Group's Hong Kong routes during the period was 1,621 million passenger-kilometres, an increase of 14.51% from the same period last year. Compared to the same period last year, the passenger load factor increased by 6.61 percentage points to 64.07% and, the revenues increased by 8.40% to RMB1,135 million, accounting for 15.17% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.70 during the period, a decrease of 5.41% compared to the same period last year.

During the first half of 2005, the cargo traffic volume increased by 10.59% to 953 million tonne-kilometres. Compared to the first half of last year, the Group's freight revenues increased by 15.59% to RMB2,261 million for the same period this year, accounting for 23.20% of the Group's operating revenues. Average yield per freight tonne-kilometre of cargo and mail amounted to RMB2.37, an increase of 4.41% compared to the same period last year.

Compared to the first half of last year, the Group's total operating costs increased by 19.21% to RMB10,455 million during the same period this year, which was principally due to the surged price of international fuel and at a persistently high level.

During the first half of 2005, the price of international aviation fuel continued to fluctuate at peak level and made record highs one after another. The drastic increase in aircraft fuel added immerses pressure on the Group's operation. In addition, the fleet expansion enlarged the aircraft fuel consumption. During the period, the Group's expenditure on aircraft fuel for the period was RMB3,324 million, an increase of 41.03% compared to the same period last year. For the purpose of risk management over aircraft fuel, the Group has commenced its practice of using financial derivatives for hedging the oil price risks.

The maintenance expenses on aircraft and engines increased by 30.51% to RMB770 million compared to the same period last year. This was principally due to the fact that the Group had a larger number of aircraft put under early maintenance during the SARS outbreak period in 2003, and hence the maintenance expenditure in the first half of 2004 went below the general level. In 2005, the maintenance cycle has returned to normal and the number of engines under repair has increased compared with that of last year.

The office and administrative expenses increased by 58.71% to RMB808 million compared to the same period last year. This was principally a result of cost increase in pilot training, advertising and increase in management costs resulting from the opening of more sales offices on the mainland.

Sales commissions increased by 38.23% to RMB405 million compared to the same period last year. This was principally a result of the higher commission rates of international routes over that of domestic routes. In the first half of 2005, the Group's operating revenue from international routes performed well and thus a higher growth on the expense on commission. Besides, there was an increase in the average commission rates of domestic routes compared with that of the corresponding period last year.

The takeoff and landing charges were RMB1,561 million, an increase of 3.45% from the same period last year, which was principally a result of the increase in transport capacity and the number of takeoffs and landings.

The salary costs were RMB748 million, a 1.06% decrease compared to the same period last year, principally a result of the Group's adoption of a compensation system that is linked to profit since last year. For the first half of 2005, the Group's profit dropped by a larger extent over the same period last year, and consequently the variable part of salary costs, which accounted for a larger share of it and was linked to profit, was reduced.

The aircraft depreciation and operating lease expenses were RMB1,703 million, a 4.22% decrease compared to the same period last year.

During the six months ended 30 June 2005, the Group's losses attributable to shareholders under the IFRS were RMB471 million. The losses attributable to shareholders were RMB0.097 per share.

Liquidity and capital resources

The Group finances its working capital requirements through a combination of funds generated from its business operations and short-term bank loans. As at 30 June 2005, the Group had cash and cash equivalents of RMB2,706 million, most of which were denominated in Renminbi. Net cash inflows generated by the Group's operating activities in the first half of 2005 were RMB728 million, a decrease of 59.89% compared to the same period last year.

The Group's primary cash requirements in the first half of 2005 were for acquisitions of, and improvements in, aircraft and flight equipment and for payment of related indebtedness. The Group's net cash outflow in investment activities was RMB4,173 million in the first half of 2005.

The Group's net cash inflow generated from financing activities was RMB4,054 million, primarily from long-term and short-term bank loans.

The Group generally operates with a working capital deficit. As at 30 June 2005, the Group's current liabilities exceeded the Group's current assets by RMB23,307 million, and the long-term debt to equity ratio was 1.65:1. For years, the Group has arranged, and believes it will be able to continue to arrange, short-term loans through domestic banks in China or foreign-invested banks to meet its working capital requirements.

A resolution regarding the issue of a short-term debenture was passed at the 2004 annual general meeting of the Company held on 30 June 2005. As at August 2005, the Company has completed the issue of two tranches of short-term debentures with an aggregate value of RMB2,000 million. For further details, please refer to the Company's announcement dated 23 August 2005.

Pledges on assets and contingent liabilities

The Group generally finances its purchases of aircraft through leases secured by its assets. As at 30 June 2005, the total value of the Group's mortgaged assets had decreased by 31.17% from RMB13,033 million as at the end of 2004, to RMB8,971 million.

Employees

As at 30 June 2005, the Group had 23,377 employees, the majority of whom were working in mainland China. The wages of the Group's employees generally consist of basic salaries and bonuses. During the period, the Group has never been involved in any major labour-related disputes with its employees, nor has it ever experienced a substantial reduction in the number of its employees. The Group has never encountered any difficulty in recruiting new employees.

Other matters

Other than the information disclosed herein, information in relation to other matters required for disclosure under paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **"Listing Rules"**) relating to the Group has not changed materially from the information disclosed in the Company's 2004 annual report.

Outlook for the second half of 2005

The Group would like to caution readers of this report that the Company's 2005 interim report contains certain forward-looking statements, e.g. descriptions of the Company's work plans for the second half of 2005 and forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to numerous uncertainties and risks, and actual events may be different from the Group's forward-looking statements.

Globally, the continued rise of crude oil price has a significant impact over the world's economic development. Despite the fact that the economy of Japan is gradually recovering, and the economy of the United States is growing mildly with a generally good prospect, the pace of economic growth of most of the countries in Asia and Europe has slowed down. China will continue to implement the macro-economic adjustment policies formulated since the previous year, promote her economic reform, adjust the economic structure, and transform the mode of Chinese economic growth. It is expected that the economy will maintain a steady to relatively quick pace of growth throughout the year and will continue to bring about a steady increase in the passenger and cargo volumes of the domestic air transport sector.

Shanghai, where the Group's operation is based, is also the City centre in the region. It attracts economic activities from, and generates economic activities in the region. The hub function of its airports has become obviously prominent. Meanwhile, progress in "open skies" agreements is accelerating. The Group faced with keen competition from Chinese and foreign carriers in its operations in east China, particularly in the Shanghai passenger and cargo transport market. To expand the Group and increase its competitiveness, the Group makes efforts to steadfastly increase its market share in the Shanghai region, adjust and optimize its route network, and develop to meet market demand. The Group is proceeding to introduce two A321, two A320, two B737-700, and three ERJ145 passenger aircraft to its fleet. It is expected that the new aircraft will be delivered and put into operation in the second half of the year. It is believed that the Group will benefit from the continuing growth in the local transport market.

To meet the heavy pressure brought to the domestic air transport sector by the continuous rise in the international crude oil price and lengthy hovering of aviation fuel at high levels, on 25 July 2005, the Civil Aviation Administration of China and the National Development and Reform Commission jointly promulgated the "Plan of Aviation Fuel Surcharge for the Domestic Civil Aviation Industry"(民航國內航空運輸燃油附加費方案), which stipulated that an aviation fuel surcharge would be levied for a period between 1 August 2005 and 31 December 2005 inclusively. It is expected that the measure may serve to offset part of the increased cost of the Group caused by the escalating aviation fuel prices, thus reducing the Group's operating pressure.

On 21 July 2005, the People's Bank of China announced a major adjustment to its policy on the Renminbi exchange rate, pursuant to which the peg of Renminbi to the US dollar would be ended, the value of Renminbi would be set against a basket of currencies, and Renminbi appreciated by 2.1%. As the Group adopts Renminbi as its accounting currency and owes large quantities of indebtedness denominated in US dollars, the one-time exchange gain and loss arising from this change in currency rate would partially reduce the aggregate indebtedness of the Group. In the long run, this exchange rate adjustment may help cut down costs of the Group as the expenditures of the Group in its day-to-day operation on purchasing aircraft, aviation materials and fuels are, in full or in part, settled in US dollars. Meanwhile, foreign currency revenues account for a substantial share of the Group's total revenues, and hence this adjustment would reduce the revenues from this portion. In the overall perspective, the Group believes this adjustment on the Renminbi exchange rate will have a positive impact.

At the 2004 annual general meeting of the Company which was held on 30 June 2005, a resolution was passed regarding the Company's proposed acquisition from China Eastern Air Holding Company (its controlling shareholder) of certain assets and liabilities relating to the aviation businesses of China Eastern Air Northwest Company and China Eastern Air Yunnan Company, subsidiaries of China Eastern Air Holding Company. At present, the settlement of the relevant assets and liabilities is set for completion, and corporate integration is expected to be finished within the second half of the year.

In view of the current operating environment in the market and the Group's actual situation, the Group will, following the principle of ensuring flight safety and providing quality services, make every effort in the second half of 2005 to integrate the assets of its mainline aviation business, improve its management, and enhance its efficiency to meet competition in a proactive manner, with a view to enlarging its market share and improving its earnings. The Group will perform specific measures as follows:

1. We will continue to improve our safety management mechanism and place emphasis on strengthening the overall function of security system, bring the functions of our Airline Operation Control ("AOC") system into full play, strengthen the control capacity of AOC for unified operation, step up the monitoring of aircraft maintenance, continue improving the on-time rate of our scheduled flights, and enhance the brand image of the Company in respect of security and service.

2. We will complete the all-dimensional integration of the assets of our mainline air transport business as soon as possible, fulfil a centralized management, increase synergy, and bring our economies of scale into full play, with a view to attaining the objectives of enhancing the competitive strengths of the Group, reducing its production costs, and boosting its overall profitability.

3. We will continue to develop Shanghai into an aviation hub, allocate our transport capacity rationally, promote internal code-sharing business, and develop our flight transfer and connection businesses, so as to ensure the Company's dominant position in Shanghai, the aviation hub.

4. We will make full use of our revenue management system to improve the profitability of our revenue. We will monitor the seat revenue in a stringent manner and rationally adjust the price levels of our routes.

5. We will make strenuous effort to develop the electronic ticketing business, and thoroughly implement the sale of electronic tickets for domestic routes and introduce this to international routes. We will develop high-end value-added services for travelers, enhance communication with members of Eastern Miles through various media, and elevate the image and influence of the frequent flyer club.

6. We will continue to reinforce the marketing and management of the Group's freight business, develop the domestic and international cargo transhipment business in Shanghai, and step up the efforts to market passenger aircraft belly holds. We will formulate more flexible sales policies to attract cargo sources, to raise our freight load factor, yield and total revenues.

7. We will strengthen our cost control, strictly implement our procedures for comprehensive budget management and control the payment of controllable expenses. We will reinforce our monitoring of funds, raise the usage rate of our funds, expand our financing channels, and lower our financing costs by issuing short-term financing securities. We will effectively avoid the risks associated with aviation fuel and foreign exchange through a timely management of aviation fuel and foreign exchange risks by means of financial derivates.

FLEET PLANNING

As at 30 June 2005, the expected details of aircraft on order, which are scheduled to be delivered and put in service, are as follows:

Year to be delivered	Type of aircraft	Number of aircraft
Second half of 2005	A321	2
	A320	2
	B737-700	2
	ERJ145	3
2006	A330-300	7
	A330-200	3
	A321	2
	A319	3
	B737-700	6
	ERJ145	2
	B747F	1
2007	A330-300	5
	A330-200	1
	A321	4
	A320	2
	A319	2
	B747F	1

MATERIAL MATTERS

1. Dividends

The Board of Directors of the Company does not recommend payment of any interim dividend for the six months ended 30 June 2005.

2. Share capital

There was no change in the Company's share capital since 31 December 2004. As at 30 June 2005, the Company's share capital structure was as follows:

		Number of shares	Approximate percentage of total share capital (%)
1.	A shares		
	(1) Unlisted State-owned legal person shares	3,000,000,000	61.64
	(2) Listed shares	300,000,000	6.17
2.	H shares	1,566,950,000	32.19
3.	Total number of shares	4,866,950,000	100.00

3. Substantial shareholders

So far as the Directors are aware, as at 30 June 2005, each of the following persons, not being a Director, chief executive, Supervisor or member of the Company's senior management, had an interest and/or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"), or was otherwise interested in 5% or more of any class of the then issued share capital of the Company:

			Interest As at 30 June 2005			
Name of shareholder	Nature of shares held	Number of shares held	Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued A shares	Approximate percentage of shareholding in the Company's total issued H shares	Short position
China Eastern Air Holding Company	A shares (unlisted State-owned legal person shares)	3,000,000,000	61.64%	90.91%	–	–
HKSCC Nominees Limited (Note)	H shares	1,484,881,163	30.51%	–	94.76%	–

Note:

Based on the information available to the Directors and so far as the Directors are aware and understand, as at 30 June 2005, among the 1,484,881,163 H shares held by HKSCC Nominees Limited, no person had any interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be, and had been, disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

4. Shareholding interests of the Directors, chief executives, Supervisors and senior management

The shareholding interests of the Directors, chief executives, Supervisors and senior management of the Company as at 30 June 2005 are as follows:

Name	Position	Number of listed A shares held - personal interest	Capacity in which the A shares were held
Li Fenghua	Chairman	0	–
Luo Chaogeng	Director, President	0	–
Cao Jianxiong	Director	2,800 (Note 1)	Beneficial owner
Wan Mingwu	Director, Vice President	0	–
Zhong Xiong	Director	2,800 (Note 1)	Beneficial owner
Luo Zhuping	Director, Company Secretary	2,800 (Note 1)	Beneficial owner
Hu Honggao	Independent Non-executive Director	0	–
Peter Lok	Independent Non-executive Director	0	–
Wu Baiwang	Independent Non-executive Director	0	–
Zhou Ruijin	Independent Non-executive Director	0	–
Xie Rong	Independent Non-executive Director	0	–
Li Wenxin	Chairman of the Supervisory Committee	0	–
Ba Shengji	Supervisor	2,800 (Note 1)	Beneficial owner
Yang Xingen	Supervisor	0	–
Yang Jie	Supervisor	0	–
Liu Jiashun	Supervisor	0	–
Wu Jiuhong	Vice President	0	–
Yang Xu	Vice President	1,000 (Note 2)	Beneficial owner
Zhou Liguo	Vice President	0	–
Zhang Jianzhong	Vice President	0	–
Tong Guozhao	Vice President	0	–
Luo Weide	Chief Financial Officer	0	–

Note 1: representing approximately 0.000933% of the Company's total issued listed A shares as at 30 June 2005.

Note 2: representing approximately 0.000333% of the Company's total issued listed A shares as at 30 June 2005.

Save as disclosed above, as at 30 June 2005, none of the Directors, chief executives, Supervisors or members of the Company's senior management had any other interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any of such Directors, chief executives, Supervisors or members of the Company's senior management was taken or deemed to have under such provisions of the SFO) and as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be disclosed to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).

5. Purchase, sale or redemption of securities

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its issued securities (the word "securities" having the meaning ascribed to it in paragraph 1 of Appendix 16 to the Listing Rules).

6. Corporate governance practices

The Board of Directors has reviewed the relevant provisions and corporate governance practices under the codes of corporate governance practices adopted by the Company, and took the view that, save as disclosed below, the Company's corporate governance practices during the six months ended 30 June 2005 (the "Period") met the requirements under most of the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, without taking into account the code provisions regarding internal controls under paragraph C.2.1 of the Code:

- Paragraph A.1.3 requires that notice of at least 14 days should be given of a regular Board meeting to give all Directors an opportunity to attend. During the Period, the Company did not act in accordance with this requirement of giving at least 14 day notice, although notice of at least 10 days was made pursuant to the Articles of Association. For compliance with the code provision, the Company will in future give at least 14 day notice for regular Board meetings.

- Paragraph A.5.4 requires that the Board of Directors should establish written guidelines on no less exacting terms than the Model Code set out in Appendix 10 to the Listing Rules for relevant employees in respect of their dealings in the securities of the Company. The Company had not established such guidelines during the Period, but has commenced such work in accordance with the requirement and intends to provide such guidelines for the relevant employees during the second half of the year.

Meanwhile, the Company is working with consultants to enhance the Company's internal controls system.

The Company has adopted a model code on no less exacting terms than the Model Code as its code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, the Company understands that the Directors have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

7. Material litigation and arbitration

The Group was not involved in any material litigation or arbitration during the six months ended 30 June 2005.

8. Changes in the members of the Board of Directors

At the 2004 annual general meeting of the Company held on 30 June 2005, a resolution was approved to elect Mr. Luo Chaogeng as a Director of the Company, while Mr. Ye Yigan has ceased to be a Director of the Company.

On 1 April 2005, at the 6th meeting for the year 2005 of the fourth session of the Board of Directors, a resolution was approved in writing to appoint Mr. Tong Guozhao as a Vice President of the Company, while Mr. Wu Yulin has ceased to be a Vice President of the Company.

9. Miscellaneous

For the six months ended 30 June 2005:

1. On 16 March 2005, the Company entered into an aircraft purchase agreement in Shanghai with Airbus SAS to purchase five A319 aircraft. Details are set out in the Company's announcements dated 17 March 2005 and 30 June 2005 and the circulars dated 7 April 2005 and 20 May 2005;

2. On 23 March 2005 China Eastern Airlines Jiangsu Co., Ltd., a subsidiary of the Company, entered into an aircraft purchase agreement in Shanghai with Harbin Embraer Aircraft Industry Co., Ltd. to purchase five ERJ145 aircraft. Details are set out in the Company's announcement dated 23 March 2005 and the circular dated 7 April 2005;

3. On 21 April 2005, the Company entered into an aircraft purchase agreement in Beijing with Airbus SAS to purchase fifteen A320 aircraft. Details are set out in the Company's announcements dated 21 April 2005 and 30 June 2005 and the circular dated 20 May 2005;

4. On 12 May 2005, the Company, entered into an acquisition agreement in Shanghai with China Eastern Air Holding Company (its controlling shareholder), China Eastern Air Northwest Company and China Eastern Air Yunnan Company to acquire from China Eastern Air Holding Company certain assets and liabilities relating to the aviation businesses of China Eastern Air Northwest Company and China Eastern Air Yunnan Company. Details are set out in the Company's announcement dated 12 May 2005 and the circular dated 19 May 2005;

5. On 12 May 2005, the Company entered into various agreements in Shanghai with China Eastern Air Holding Company and certain of its associates in respect of certain continuing connected transactions. Details are set out in the Company's announcement dated 12 May 2005 and the circular dated 19 May 2005;

6. On 28 May 2005, China Cargo Airlines Co., Ltd., a subsidiary of the Company, entered into an aircraft purchase agreement in Shanghai with Boeing Company to purchase two Boeing 747-400 freight aircraft. Details are set out in the Company's announcement dated 6 June 2005 and the circular dated 12 July 2005.

By order of the Board of Directors
China Eastern Airlines Corporation Limited
Li Fenghua
Chairman

Shanghai, the People's Republic of China
29 August 2005

As at the date of this report, the Directors of the Company are:

Li Fenghua (Chairman, Executive Director)
Luo Chaogeng (President, Executive Director)
Cao Jianxiong (Non-executive Director)
Wan Mingwu (Vice President, Executive Director)
Zhong Xiong (Non-executive Director)
Luo Zhuping (Executive Director)
Hu Honggao (Independent Non-executive Director)
Peter Lok (Independent Non-executive Director)
Wu Baiwang (Independent Non-executive Director)
Zhou Ruijin (Independent Non-executive Director)
Xie Rong (Independent Non-executive Director)