



Chairman's  
Statement



*Li Fenghua, Chairman*

李丰华

Dear shareholders,

I am pleased to present the report on the operating results of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2005. On behalf of all the staff of the Group, I would like to extend my sincere thanks to the shareholders for their support of the Group.

In 2005, the world economy rose steadily. Despite the somewhat slackened growth compared with 2004, the

growth was still significant. The economy of the PRC continued with its trend of high growth, with the macro-economic regulation suppressing certain sectors while promoting others. As investment and spending have been gradually picking up, domestic demand showed an accelerated growth as a result of domestic demand stimulating policy. However, since 2004 the international crude oil price had been hitting new highs, and the price for aviation fuel had been reverberating at high levels, resulting in the significant prolonged rise in cost for the air transport sector, and our results, inevitably, were affected.

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Demand for the air transport sector of the PRC was increasing steadily. However, amid the intensifying market competition, the Group took a series of measures in response, and by reasonably redeployment of our transport capacity, we had expanded the operating scale in Shanghai as the hub with our market share on the rise. In 2005, in terms of the share in flight numbers, we accounted for approximately 41% and 32.5% of the air traffic at Hongqiao Airport and Pudong Airport respectively. Our average daily aircraft utilization rate was 9.4 hours, representing a decrease of 0.3 hour as compared to 2004, which was partly attributable to the decrease in daily aircraft utilization rate of some of our older aircraft.

In terms of passenger traffic, the Group successively rolled out passenger routes such as "Shanghai – Moscow", "Shanghai – Beijing – Mumbai", "Shanghai – Kunming – Decca", and the frequency for "Shanghai – Vancouver" was increased, thus further improved the route network of the Company and pushed far and hard in the connection flights operations and enhanced the transit service quality. International routes originating at Shenyang, Dalian, Shenzhen, Chongqing, Chengdu and Harbin sharing codes have been opened one by one, and in 23 cities including Shantou and Xiamen, the "聯程值機·行李直掛" ("Single Check-in for Transit Passengers and Luggages") service was introduced. While it makes travel more convenient for passengers, it has also heightened the reaching capability of our routes. As such, the number of passengers using our transit service exceeded 850,000 persons during 2005. We continue to strengthen cooperation with our partners. Code sharing on certain flights with Air Europa (西班牙歐洲航空公司) and Thai Airways (泰國航空公司) has been achieved. The newly established Hong Kong branch office has upgraded the service capacity of the Hong Kong region.

We took proactive efforts in promoting the "Eastern Miles" frequent flyers plan for more passengers to use the electronic passenger tickets value-added operation. At present, the "Eastern Miles" frequent flyer plan has attracted more than 5.2 million membership. With further promotion for the electronic passenger ticket sales, sales of the electronic tickets rose significantly.



In terms of freight traffic, the Group currently owns a total of six MD11 freighters and has two wet-leased freighters A300F and two B747F, thus further enhancing its capacity on the more profitable cargo route operating between the PRC and Europe, the United States, Japan, South Korea and Hong Kong. In order to expand the cargo freight operation, communications of our cargo freight sales system has been reinforced with the northern, southern, south-western and overseas sales management zones have been established, which gives further strength to the cargo freight sales network. Such innovating sales model had pushed the cargo transit service a big step forward.

In terms of service, in 2005, the Group established the service quality management department to take care of the service quality and innovation of its service brand name.



By rationalizing the performance award and penalty mechanism, our flight-taking rate is on the rise. According to the statistics of the China Administration for Aviation, the flight-taking rate of the Group has been leading among industrial players in the PRC. We received the “customer satisfaction” award from the China Administration for Aviation in the “旅客話民航” (“Passengers’ Rating of Civil Aviation Award”) activities. While continuing to build our existing brand name, we insist to stay close to the market trend and launch new products one by one, examples are the “溫馨下午茶” (“Warm and Fragrant Afternoon Tea”) and “地面選餐空中享用” (“Inflight Meals Ordered Before Flight”) services to add more attraction to the first class and business class. We introduced the “localization service” on China – Japan and Shanghai – Hong Kong routes after our launching for the China – Korea routes for more convenience to the passengers. The special service hotline “95108” call-centre was established to provide a smooth channel for customer service and to handle complaints of travelers. This has a positive effect on our brand name.

### Outlook for 2006

We would like to caution readers of this report that operation of the Group, an air transport enterprise which performs public service functions, is linked closely to political and economic situations, both internationally and locally. As such, the operation of the Group and of the whole sector is, to a substantial extent, subject to the risks associated with geopolitics and the outbreaks of unexpected events. This 2005 annual report of the Group contains (but not limited to) certain forward-looking statements, such as those on the economies of Asia including the PRC, and the aviation market. Such forward-looking statements are subject to many uncertainties and risks.

The Group expects that the global economy will continue to grow in 2006, but the pace might be slower. The economic growth in East Asia continues. Factors such as international oil price, imbalance in global trading and investment and the avian flu become uncertainties in the global economic environment. China's economy is at a stage of fast growth, and with further system reform and opening up, the inherent impetus of economic growth and agility, spending increases gradually. In industrialized cities and town, the progress is faster, which continues to lead a faster economic growth, hence the effects of the macro-economic regulation. As such, growth in air transport demand is maintained. The Group will seize upon the opportunity and make timely adjustments to our capacity, thereby pushing up the turnover volume in every aspect, hence our revenue in air transport. Also, Shanghai, our principal operating base, its radiating effect in reaching out to other cities is marked. However, competition from domestic airlines for the passenger and cargo traffic in Shanghai is the keenest in East China region. In order to capture the opportunity and to fend off competition, we shall continue to expand our scale in 2006 and to adjust and optimize our route network, thereby lifting our competitiveness, increase our market share in the Shanghai region over time and create more attractive products and services to meet the need of the market. The Group shall continue to introduce three A319



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aircraft, two A321 aircraft, three A330-200 aircraft, seven A330-300 aircraft, seven B737-700 aircraft, four ERJ-145 aircraft and one B747F aircraft, which will be delivered to us and commissioned into service this year. It is believed that we shall have the benefit of the increasing demand in air transport in the region.

In view of the operating environment and our actual position, we shall implement the following in 2006 to upgrade our competition:

### 1. To strengthen safety management and enhance flight safety

In 2006, the Company will continue to accomplish a solid job of security management. To comply with the Airline Operational Control System ("AOC"), the Company will raise the punctuality rate of flights and strengthen its flight services of irregularity. To meet the requirements of the IATA Operational Safety Audit, the Group will unremittingly improve its security management system, step up its surveillance system, and improve an examination of self-monitoring, examination and verification.

### 2. To improve our service quality and enhance our corporate image

In 2006, the Company will first invigorate the functions of service quality control department, continue to strengthen its existing products, and promote the brand image of its services. The Group will bolster and refine its 10 service projects such as "China Shuttle" and "Eastern Miles". It will continue with its effort in dealing with any irregularity in flight schedules by collaborating with department heads of airports.

Efforts will be made to facilitate the building up of Shanghai as an aviation hub, and to reinforce the strategic planning of the Company's route network. The transport capacity deployed to East China especially to Shanghai will be added so as to ensure the Company's advantageous position in the strategic competition in building up Shanghai as the aviation hub.

### 3. To step up our revenue quality and explore the market innovatively

We shall fully leverage on our revenue management system and implement its seat income monitoring. We shall adjust our prices upward reasonably and respond quickly to the situation, thereby enhancing the quality of our revenue. We shall deploy our route scientifically in order to increase the total number of our flights. We shall make use of the pivotal advantages of the Shanghai airports and continue to expand our transit network and code-sharing arrangement with plans to open the routes to Xian, Kunming, Hohhot and Changsha, thereby fully utilizing the hub effect of Xian and Kunming. We shall put more effort in developing new services, especially those for frequent flyers and major clients.

### 4. To strengthen cost control and enhance our financial management

We shall put more efforts in our overall budget management and strengthen our cost control tracking management and speed up the return of capital. By stepping up our capital risk management and making use of financial derivatives, we effect suitable operation regarding interest rate and exchange rate. By avoiding financial risks, we aim at financing at lower cost.

We shall take steps to control our fuel cost and increase the ratio of aviation fuel arbitrage so as to minimize the impact of fluctuation in fuel prices on us. We fully implement the dynamic fuel policy and refuel strictly in accordance with flight plans.

We shall form our centralized mass purchase of materials, and with such work flow monitored and centralized, we aim at reducing the costs. We also strengthen our integrated management to reduce maintenance cost.

### 5. To speed up integration and achieve synergy

The Group has completed the acquisition 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 which have been, respectively, restructured as the Northwest branch and Yunnan branch of the Group. With this move, we are able to expand our scale, market share, network, fleet size and

human resources and have the profile optimized, and our core competitiveness can become more powerful. In January 2006, the Group increased its shareholding interest in an affiliate, China Eastern Airlines Wuhan Limited from 40% to 96%. The increased shareholding favors our internal control and gives rise to more synergy.

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

**Li Fenghua**

*Chairman*

Shanghai, China

April 10, 2006

