Report of the Auditors

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TO THE SHAREHOLDERS OF CHINA EASTERN AIRLINES CORPORATION LIMITED

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

We have audited the accompanying consolidated balance sheet of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2005, the related consolidated statements of income, cash flow and changes in equity for the year then ended, and the balance sheet of the Company as at 31 December 2005. These financial statements set out on pages 69 to 158 are the responsibility of the Company's management. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005, and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10 April 2006

Consolidated Income Statement

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2005

	Note	2005 RMB'000	Restated 2004 RMB'000
Revenues	5	**27,454,443**	21,386,553
Other operating income	6	**245,279**	85,004
Operating expenses			
Commissions		**(969,587)**	(772,219)
Aircraft fuel		**(8,888,873)**	(5,429,658)
Take-off and landing charges		**(3,718,846)**	(3,019,742)
Ground services and other charges		**(115,516)**	(99,296)
Civil aviation infrastructure levies		**(466,191)**	(251,185)
Food and beverages		**(976,787)**	(758,046)
Wages, salaries and benefits	8	**(2,359,467)**	(1,865,879)
Aircraft maintenance		**(1,383,989)**	(860,184)
Aircraft depreciation and operating lease rentals		**(5,254,716)**	(4,466,523)
Other depreciation, amortisation and operating lease rentals		**(679,867)**	(495,916)
Ticket reservation fee		**(292,412)**	(209,995)
Insurance costs		**(148,862)**	(152,194)
Office, administrative and other expenses		**(2,430,361)**	(1,858,336)
Total operating expenses		**(27,685,474)**	(20,239,173)
Operating profit		**14,248**	1,232,384
Interest income		**128,700**	129,020
Finance costs	9	**(707,050)**	(770,176)
Share of results in associates	20	**(9,030)**	(50,524)
Share of results in jointly controlled entities	21	**(4,300)**	45,268
(Loss)/profit before income tax	10	**(577,432)**	585,972
Taxation	11	**138,704**	(129,601)
(Loss)/profit for the year		**(438,728)**	456,371
Attributable to:			
Equity holders of the Company		**(467,307)**	320,691
Minority interest		**28,579**	135,680
		(438,728)	456,371
Dividend payable to equity holders of the Company attributable to the year	12	**–**	97,339
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year – basic and diluted	13	**RMB(0.10)**	RMB0.07

The notes on pages 76 to 158 are an integral part of these financial statements.

Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2005

	Note	2005 RMB'000	Restated 2004 RMB'000
Non-current assets			
Property, plant and equipment	14	**38,347,516**	29,743,886
Construction in progress	15	**240,884**	188,654
Lease prepayments	16	**972,771**	828,808
Advance payments on acquisition of aircraft	17	**9,072,673**	2,678,603
Intangible assets	18	**688,311**	36,303
Investments in associates	20	**629,746**	633,212
Investments in jointly controlled entities	21	**100,520**	52,948
Available-for-sale financial assets		**40,802**	39,546
Other long-term assets	22	**2,705,558**	2,202,606
Deferred tax assets	33	**434,839**	395,465
Derivative assets	37	**70,886**	11,571
		53,304,506	36,811,602
Current assets			
Flight equipment spare parts		**978,922**	523,186
Trade receivables	23	**1,918,409**	1,707,062
Amounts due from related companies	41	**205,712**	122,253
Prepayments, deposits and other receivables	24	**997,271**	611,959
Cash and cash equivalents	25	**1,864,001**	2,114,447
Derivative assets	37	**53,036**	–
		6,017,351	5,078,907
Current liabilities			
Sales in advance of carriage		**823,149**	719,957
Trade payables and notes payables	26	**3,394,898**	1,457,217
Amounts due to related companies	41	**295,030**	138,968
Other payables and accrued expenses	27	**6,021,481**	4,466,024
Provision for aircraft overhaul expenses, current portion	28	**15,589**	52,798
Tax payable		**47,259**	162,606
Obligations under finance leases, current portion	29	**2,428,037**	1,189,648
Borrowings, current portion	30	**18,554,630**	9,382,351
Derivative liabilities	37	**34,844**	–
		31,614,917	17,569,569
Net current liabilities		**(25,597,566)**	(12,490,662)
Total assets less current liabilities		**27,706,940**	24,320,940

Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2005

	Note	2005 RMB'000	Restated 2004 RMB'000
Non-current liabilities			
Provision for aircraft overhaul expenses	28	**388,410**	201,211
Obligations under finance leases	29	**8,180,460**	7,472,638
Borrowings	30	**9,790,116**	7,542,828
Other long-term liabilities	34	**155,229**	100,204
Post-retirement benefit obligations	35(b)	**1,202,877**	618,232
Long-term portion of staff housing allowances	36(b)	**444,196**	276,248
Deferred tax liabilities	33	**601,340**	687,850
Derivative liabilities	37	**25,770**	119,643
		20,788,398	17,018,854
Net assets		**6,918,542**	7,302,086
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	31	**4,866,950**	4,866,950
Reserves	32	**1,229,115**	1,614,301
		6,096,065	6,481,251
Minority interest		**822,477**	820,835
Total equity		**6,918,542**	7,302,086

These financial statements have been approved for issue by the Board of Directors on 10 April 2006.

Li Fenghua
Director

Luo Chaogeng
Director

The notes on pages 76 to 158 are an integral part of these financial statements.

Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2005

	Note	2005 RMB'000	Restated 2004 RMB'000
Non-current assets			
Property, plant and equipment	14	**32,136,603**	25,215,378
Construction in progress	15	**88,802**	77,534
Lease prepayments	16	**481,600**	396,481
Advanced payments on acquisition of aircraft	17	**8,157,515**	2,678,603
Intangible assets	18	**688,311**	36,303
Investments in subsidiaries	19	**2,512,490**	2,778,516
Investments in associates	20	**620,659**	615,095
Investments in jointly controlled entities	21	**59,552**	7,680
Available-for-sale financial assets		**35,282**	13,508
Other long-term assets	22	**2,596,521**	2,181,581
Deferred tax assets	33	**372,206**	344,711
Derivative assets	37	**70,886**	11,571
		47,820,427	34,356,961
Current assets			
Flight equipment spare parts		**906,605**	492,977
Trade receivables	23	**1,260,283**	1,077,536
Amounts due from related companies	41	**203,113**	116,001
Prepayments, deposits and other receivables	24	**688,543**	465,377
Cash and cash equivalents	25	**940,609**	921,252
Derivative assets	37	**53,036**	–
		4,052,189	3,073,143
Current liabilities			
Sales in advance of carriage		**808,231**	711,441
Trade payables and notes payables	26	**2,975,827**	1,411,385
Amounts due to related companies	41	**205,189**	164,216
Other payables and accrued expenses	27	**5,132,878**	3,839,401
Provision for aircraft overhaul expenses, current portion	28	**15,589**	42,463
Tax payable		**2,210**	–
Obligations under finance leases, current portion	29	**2,361,974**	1,189,648
Borrowings, current portion	30	**15,375,864**	7,441,075
Derivative liabilities	37	**34,844**	–
		26,912,606	14,799,629
Net current liabilities		**(22,860,417)**	(11,726,486)
Total assets less current liabilities		**24,960,010**	22,630,475

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2005

	Note	2005 RMB'000	Restated 2004 RMB'000
Non-current liabilities			
Provision for aircraft overhaul expenses	28	**333,246**	158,262
Obligations under finance leases	29	**7,409,981**	7,472,638
Borrowings	30	**9,457,436**	7,520,481
Other long-term liabilities	34	**155,229**	100,204
Post-retirement benefit obligations	35(b)	**1,085,637**	514,174
Long-term portion of staff housing allowances	36(b)	**415,735**	252,476
Deferred tax liabilities	33	**532,273**	623,653
Derivative liabilities	37	**25,770**	119,643
		19,415,307	16,761,531
Net assets		**5,544,703**	5,868,944
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	31	**4,866,950**	4,866,950
Reserves	32	**677,753**	1,001,994
Total equity		**5,544,703**	5,868,944

These financial statements have been approved for issue by the Board of Directors on 10 April 2006.

Li Fenghua
Director

Luo Chaogeng
Director

The notes on pages 76 to 158 are an integral part of these financial statements.

Consolidated Cash Flow Statement

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	38	**3,369,783**	4,242,852
Interest paid		**(1,357,402)**	(872,738)
Income tax paid		**(59,932)**	(104,009)
Net cash inflow from operating activities		**1,952,449**	3,266,105
Cash flows from investing activities			
Purchase of aircraft, engines, flight equipment, buildings, other property, plant and equipment		**(2,486,830)**	(1,525,845)
Additions of construction in progress		**(189,220)**	(178,065)
Proceeds on disposals of aircraft, engines, flight equipment, buildings, other property, plant and equipment		**32,923**	667,824
Acquisition of land use rights		**(31,780)**	–
Acquisition of available-for-sale financial assets		**(1,256)**	–
Acquisition of financial asset held for trading		**–**	(270,350)
Advances payments on acquisition of aircraft		**(7,751,197)**	(2,076,990)
Repayments of advances payments on acquisition of aircraft		**–**	80,000
Decrease/(increase) in long-term bank deposits		**69,000**	(51,108)
(Increase)/decrease in short-term bank deposits		**(68,730)**	31,424
Repayment of other payables (instalment payment for acquisition of an airlines business)		**(30,000)**	(30,000)
Investments in associates		**–**	(4,993)
Investments in jointly controlled entities		**–**	(7,680)
Proceeds from maturity of US Treasury zero coupon bonds		**–**	585,736
Proceeds from disposals of financial asset held for trading		**–**	275,585
Interest received		**128,700**	71,900
Business acquisitions, net cash outflow	40	**(40,704)**	–
Net cash outflow from investing activities		**(10,369,094)**	(2,432,562)
Cash flows from financing activities			
Proceeds from drawn down of short-term bank loans		**14,307,315**	8,988,970
Repayments of short-term bank loans		**(8,872,754)**	(7,431,931)
Proceeds from drawn down of long-term bank loans		**5,135,286**	2,155,310
Repayments of long-term bank loans		**(3,843,483)**	(2,647,930)
Principal repayments of finance lease obligations		**(1,157,334)**	(1,617,001)
Proceeds from issuance of notes payables		**4,228,783**	1,347,786
Repayments of notes payables		**(3,376,072)**	(1,265,939)
Capital injection from minority shareholders of subsidiaries		**–**	218,387
Proceeds from issuance of debentures		**1,951,600**	–
Dividends paid		**(97,339)**	–
Dividends paid to minority shareholders of subsidiaries		**(90,000)**	(60,000)
Net cash inflow/(outflow) from financing activities		**8,186,002**	(312,348)
Net (decrease)/increase in cash and cash equivalents		**(230,643)**	521,195
Cash and cash equivalents at 1 January		**2,114,447**	1,582,780
Exchange adjustment		**(19,803)**	10,472
Cash and cash equivalents at 31 December		**1,864,001**	2,114,447

The notes on pages 76 to 158 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2005

	Attributable to equity holders of the Company Share capital RMB'000	Reserves RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2004 as previously presented	4,866,950	1,515,201	6,382,151	–	6,382,151
As previously separately reported as minority interest (Note 2(a))	–	–	–	522,713	522,713
Effect of changes in accounting policy on the adoption of IAS16 (Note 2(a))	–	(207,609)	(207,609)	4,055	(203,554)
Balance at 1 January 2004, as restated	4,866,950	1,307,592	6,174,542	526,768	6,701,310
Cash flow hedges, net of tax	–	(13,982)	(13,982)	–	(13,982)
Contributions from minority interest of subsidiaries	–	–	–	218,387	218,387
Dividends paid to minority interest of subsidiaries	–	–	–	(60,000)	(60,000)
Profit for the year	–	320,691	320,691	135,680	456,371
Balance at 31 December 2004	4,866,950	1,614,301	6,481,251	820,835	7,302,086
Balance at 1 January 2005 as previously presented	**4,866,950**	**2,015,294**	**6,882,244**	**–**	**6,882,244**
As previously separately reported as minority interest (Note 2(a))	**–**	**–**	**–**	**831,208**	**831,208**
Effect of changes in accounting policy on the adoption of IAS16 (Note 2(a))	**–**	**(400,993)**	**(400,993)**	**(10,373)**	**(411,366)**
Balance at 1 January 2005, as restated before opening adjustment	**4,866,950**	**1,614,301**	**6,481,251**	**820,835**	**7,302,086**
Opening adjustment on derecognition of negative goodwill on the adoption of IFRS 3 (Note 2(a))	**–**	**42,873**	**42,873**	**–**	**42,873**
Balance at 1 January 2005, as restated	**4,866,950**	**1,657,174**	**6,524,124**	**820,835**	**7,344,959**
Cash flow hedges, net of tax	**–**	**136,587**	**136,587**	**–**	**136,587**
Dividend relating to 2004	**–**	**(97,339)**	**(97,339)**	**–**	**(97,339)**
Dividend paid to minority interest of subsidiaries	**–**	**–**	**–**	**(90,000)**	**(90,000)**
Contribution from minority interest of subsidiaries	**–**	**–**	**–**	**63,063**	**63,063**
Loss for the year	**–**	**(467,307)**	**(467,307)**	**28,579**	**(438,728)**
Balance at 31 December 2005	**4,866,950**	**1,229,115**	**6,096,065**	**822,477**	**6,918,542**

The notes on pages 76 to 158 are an integral part of these financial statements.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

For the Year ended 31 December 2005

1. Corporate Information

China Eastern Airlines Corporation Limited (the "Company"), a joint stock company limited by shares was incorporated in the People's Republic of China ("PRC") on 14 April 1995. The address of its registered office is 66 Airport Street, Pudong International Airport, Shanghai, PRC. The Company and its subsidiaries (the "Group") are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery and other extended transportation services.

The Company is majority owned by China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise incorporated in the PRC.

During the year ended 31 December 2005, the Company acquired certain assets and liabilities relating to the aviation businesses of China Eastern Air Northwest Company ("CEA Northwest") and China Eastern Air Yunnan Company ("CEA Yunnan"). Further details of the acquisitions are set out in Note 40.

2. Principal Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment and financial assets.

2. Principal Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Standards, interpretations & amendments to published standards effective in 2005

In 2005, the Group adopted the new and revised IFRS as described below, which are relevant to its operations. The 2004 comparatives have been adjusted as required, in accordance with the relevant requirements of the new/revised IFRS.

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

– IAS 16 (amended 2004) replaces IAS 16 (revised 1998). The Group has adopted the revised IAS 16 and has amended the accounting policy applied to the costs of overhaul of owned and finance leased aircraft and engines. Under the Group's revised policy, these costs are capitalised as a component of property, plant and equipment, and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment and is depreciated over the estimated period between overhauls on a straight-line basis. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to the income statement. In prior years, the costs of overhauls were expensed in the income statement as incurred. The adoption of the revised treatment of IAS 16 (amended 2004) has been accounted for retrospectively.

2. Principal Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

The adoption of revised IAS 16 resulted in:

Increase/(decrease)	2005 RMB'000	2004 RMB'000
Decrease in aircraft maintenance expenses	**(710,824)**	(536,099)
Increase in aircraft depreciation	**820,555**	794,390
Decrease in taxation	**(19,658)**	(50,479)
Increase/(decrease) in profit for the year attributable to minority interest	**30,271**	(14,428)
Decrease in the profit attributable to equity holders of the Company	**(120,344)**	(193,384)
Decrease in aircraft, engines and flight equipment	**(586,163)**	(476,433)
Decrease in deferred tax liabilities	**(84,725)**	(65,067)
Increase/(decrease) in minority interest	**19,898**	(10,373)
Decrease in beginning retained profits	**(400,993)**	(207,609)
Decrease in basic and diluted earnings per share	**RMB(0.02)**	RMB(0.04)

– IAS 24 (revised in 2003) has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include CEA Holding and its subsidiaries, Civil Aviation Administration of China ("CAAC", a regulatory authority of the civil aviation industry in the PRC) and its affiliates, and other state-controlled enterprises and their subsidiaries, directly or indirectly controlled by the PRC government, corporations in which the Company is able to control or exercise significant influence, and key management personnel of the Company, CEA Holding, CAAC and other state-controlled enterprises, and their close family members.

– IFRS 3, IAS 36 (revised in 2004) and IAS 38 (revised in 2004) have resulted in a change in the accounting policy relating to the accounting for goodwill and negative goodwill. 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 and negative goodwill. From 1 January 2005 onwards, positive goodwill arising from all acquisitions is no longer subject to amortisation but is tested annually for impairment, as well as when there are indications of impairment. The balance of negative goodwill as at 1 January 2005 is derecognised with a corresponding adjustment to the opening balance of retained profits. Negative goodwill amounted RMB42,873,000 has been derecognised to the opening balance of retained profits as at 1 January 2005. From 1 January 2005 onwards, IFRS 3 requires, the Group to recognise immediately in the income statement the excess of the net fair value of those items acquired over the cost of the acquisition.

2. Principal Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

The adoption of IFRS 3, IAS 36 and IAS 38 resulted in:

	2005 RMB'000
Increase in intangible assets	**42,873**
Increase in retained profits	**42,873**

– IAS 32 (revised in 2003) has added the requirements to disclose information about the use of valuation techniques, including the sensitivities of fair value estimates, to significant valuation assumptions.

– IFRS 5 has resulted in a change in the accounting policy relating to the recognition of assets held for sale or discontinued operations, which did not have any material impact on the results and financial positions of the Group as the Group did not hold material assets in this category during the periods presented.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards, which are relevant to the Group's operations, have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods, but which the Group has not early adopted, as follows:

– IAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from 1 January 2006.

– IAS 39 (Amendment) changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from 1 January 2006.

2. Principal Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

– IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from 1 January 2007.

– IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

(b) Group accounting

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(i) Subsidiaries (Cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2(k)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interest represents the interests of outside members in the operating results and net assets of subsidiaries. The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(k)).

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(ii) Associates (Cont'd)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(iii) Jointly Controlled Entities

A jointly controlled entity is an entity in which the Group has joint control over its economic activity established under a contractual arrangement. The Group's investments in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(k)).

The Group's interests in jointly controlled entities are accounted for by the equity method of accounting based on the audited financial statements or management accounts of the jointly controlled entities. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements is adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entities' equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(iii) Jointly Controlled Entities (Cont'd)

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

(iv) Common Control Transactions

The Group adopts acquisiton accounting for common control transactions.

(c) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or losses is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the income statement, any exchange component of that gain or loss is recognised in the income statement.

(d) Revenue recognition and sales in advance of carriage

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

Commission income represents amounts earned from other carriers in respect of sales made by the Group's agents on their behalf, and is recognised in the income statement upon ticket sales. Commission expense represents amounts payable to other carriers in respect of sales made by the other carriers for the Group, and is recognised in the income statement when the related revenue is recognised.

Revenues from other operating businesses, including income derived from the provision of ground services and cargo handling services, are recognised when the services are rendered.

2. Principal Accounting Policies (Cont'd)

(d) Revenue recognition and Sales in advance of carriage (Cont'd)

Rental income from subleases of aircraft is recognised on a straight-line basis over the terms of the respective leases. Rental income from leasing office premises and cargo warehouses is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportionate basis using the effective interest method.

Revenues are presented net of business tax.

(e) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

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

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

(i) Traffic revenue from services within the PRC (excluding Hong Kong Special Administrative Region ("Hong Kong")) is classified as domestic operation. Traffic revenue from inbound and outbound services between the PRC and Hong Kong or overseas markets is classified under Hong Kong or the relevant overseas locations.

(ii) Revenues from ticket handling services, airport ground services and other miscellaneous services are classified on the basis of where the services are performed.

(f) Retirement benefits

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

2. Principal Accounting Policies (Cont'd)

(f) Retirement benefits (Cont'd)

In addition, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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

(g) Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, costs of overhaul are capitalised as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment and is depreciated over the estimated period between overhauls, on a straight-line basis. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to the income statement.

2. Principal Accounting Policies (Cont'd)

(g) Maintenance and overhaul costs (Cont'd)

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

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

(h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deducted from the related cost in the income statement as a reduction of the related cost.

Government grants relating to the property, plant and equipment are recognised as a reduction of carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(i) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. Deferred tax is measured using tax rates enacted, or substantively enacted at the balance sheet date.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Property, plant and equipment

Property, plant and equipment are recognised initially at cost which comprises purchase price, costs transferred from construction in progress and advance payments on acquisition, and any directly attributable costs of bringing the assets to the condition for their intended use.

2. Principal Accounting Policies (Cont'd)

(j) Property, plant and equipment (Cont'd)

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

Costs of overhaul for aircraft and engines owned by the Group or held under finance leases are capitalised as a component of property, plant and equipment when incurred (see Note 2(g)).

Depreciation of property, plant and equipment is calculated on a straight-line basis to write off the cost or revalued amount of each asset to their residual value over their estimated useful lives. The estimated useful lives used for the calculation of annual depreciation charges are as follows:

Aircraft, engines and flight equipment		
– Components related to overhaul costs	–	2 to 8 years
– Others	–	20 years
Buildings	–	15 to 35 years
Other property, plant and equipment	–	5 to 20 years

The residual values and useful lives of each property, plant and equipment are reviewed, and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated revalued amount (Note 2(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in operating profit. When revalued assets are sold, the relevant amounts included in the revaluation reserve are transferred from revaluation reserve to retained profits.

2. Principal Accounting Policies (Cont'd)

(k) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate, jointly controlled entity or business at the date of acquisition. Goodwill on acquisition of subsidiaries and businesses is included in 'intangible assets'. Goodwill on acquisition of associates and jointly controlled entities is included in 'investments in associates' and 'investments in jointly controlled entities'. Recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gains and losses on the disposals of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(l) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Construction in progress

Construction in progress represents buildings under construction and plant and equipment pending installation. This includes the costs of construction and acquisition and interest capitalised (Note 2(p)). No depreciation is provided on construction in progress until the asset is completed and ready to use.

(n) Lease prepayments

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

2. Principal Accounting Policies (Cont'd)

(o) Advanced payments on acquisition of aircraft

Advanced payments on acquisition of aircraft represents payments to aircraft manufacturers to secure deliveries of aircraft in future years and the related interest capitalised (Note 2(p)). The balance is transferred to property, plant and equipment upon delivery of the aircraft.

(p) Borrowing costs

Interest attributable to loans for advance payments used to finance the acquisition of aircraft and other qualifying assets is capitalised as an additional cost of the related asset. Interest is capitalised at the Group's weighted average interest rate on borrowings or, where applicable, the interest rate related to specific borrowings during the period of time that is required to complete and prepare the asset for its intended use.

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

(q) Long-term bank deposits

Long-term bank deposits placed to secure future lease obligations are classified as held-to-maturity financial assets. Held-to-maturity financial assets are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses.

(r) Flight equipment spare parts

Flight equipment spare parts are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of flight equipment spare parts comprises the purchase price (net of discounts), freight charges, duty and value added tax and other miscellaneous charges. The net realisable value is the estimated replacement cost of the flight equipment spare parts.

(s) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2. Principal Accounting Policies (Cont'd)

(t) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(u) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(w) Leases

(i) A Group company is the lessee

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

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

2. Principal Accounting Policies (Cont'd)

(w) Leases (Cont'd)

(ii) A Group company is the lessor

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

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

(x) Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured at their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

2. Principal Accounting Policies (Cont'd)

(x) Derivative financial instruments (Cont'd)

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

(ii) the ineffective portions of any change in fair value is recognised in the income statement immediately.

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

(y) Dividend

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

(z) Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non-trading purposes, are classified as available-for-sale financial assets and are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognised directly in equity in the fair value reserve, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. Principal Accounting Policies (Cont'd)

(aa) Comparatives

Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year. The major reclassifications for the 2004 comparative figures include reclassification of certain items from "other payables and accrued expenses" to "trade and notes payables", and certain items from "prepayments, deposits and other receivables" to "trade receivables".

3. Financial Risk Management

(a) Financial risk factors

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

(i) Business risk

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

(ii) Price risk

The Group's results of operations may be significantly affected by the fluctuation in fuel prices which is a significant expense for the Group. While the international fuel prices are determined by worldwide market demand and supply, domestic fuel prices are regulated by CAAC. The Group has entered into certain financial derivatives to hedge against the fuel prices risk (Note 37(c)).

(iii) Interest rate risk

The Group has significant bank borrowings at floating variable rates and is exposed to risk arising from changes in market interest rates. To hedge against the variability in the cashflow arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The interest rates and terms of repayment of borrowings made to the Group are disclosed in Note 30. Details of interest rate swaps are disclosed in Note 37(a).

3. Financial Risk Management (Cont'd)

(iv) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that blank tickets are made to sales agents with an appropriate credit history. A major portion of sales are conducted through sales agents and the majority of these agents are connected to various settlement plans and/or clearing systems which have tight requirements on the credit standing of these agents.

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

(v) Liquidity risk

The Group's primary cash requirements have been for additions of and upgrades to aircraft, engines and flight equipment and payments on related borrowings/debts. The Group finances its working capital requirements through a combination of funds generated from operations and short-term bank loans. The Group generally acquires aircraft through long-term finance leases and long-term loans.

The Group operates with a working capital deficit. As at 31 December 2005, the Group's net current liabilities amounted to RMB25,598 million (2004: RMB12,491 million). For the year ended 31 December 2005, the Group recorded a net cash inflow from operating activities of RMB1,952 million (2004: RMB3,266 million), a net cash outflow from investing activities and financing activities of RMB2,183 million (2004: RMB2,745 million), and an decrease in cash and cash equivalents of RMB231 million (2004: increase of RMB521 million).

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

(vi) Foreign currency risk

The Group's finance lease obligation as well as certain bank and other loans are denominated in US dollars, Japanese Yen and Euro, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenues from ticket sales made in overseas offices and would normally generate sufficient foreign currencies after payment of foreign currency expenses, to meet its foreign currency liabilities repayable within one year. The Group also enters into certain foreign currency forward contracts to hedge against foreign currency risk (Note 37(b)).

3. Financial Risk Management (Cont'd)

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of fuel option contracts is determined using quoted market values.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair values of other long-term receivables are based on cash flow discounted using a rate based on the borrowing rate. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has been impaired in accordance with the accounting policy stated in Note 2(l). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 18). In 2005, after reviewing the business environment as well as the Group's objectives and past performance, management concluded that there was no material impairment loss for goodwill.

4. Critical accounting estimates and judgements (Cont'd)

(b) Estimated impairment of property, plant and equipment

The Group has made substantial investments in tangible long-lived assets. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Determining whether an asset is impaired requires significant judgement, including the Group's estimates of the future cash flows attributable to the asset and the appropriate discount rate. If different judgements or estimates had been utilised, material differences could have resulted in the amount and timing of the impairment charge, if any.

(c) Property, plant and equipment

The Group had approximately RMB38,000 million of property, plant and equipment as at 31 December 2005, including aircraft, engines and flight equipment with a value of approximately RMB34,740 million. As discussed in Note 2(j), property, plant and equipment are initially recognised at cost and are subsequently stated at revalued amount less accumulated depreciation. Their recorded value is impacted by management judgement, including valuations performed by the management and/or independent professional valuers, estimates of useful lives, residual value and impairment charges. If different judgements or estimates had been utilised, material differences could have resulted in the amount of revaluation and related depreciation charges.

Management reviewed the carrying value of the Group's property, plant and equipment as at 31 December 2005 and are of the opinion that the carrying amount of the property, plant and equipment is not materially different from the estimated fair value and no impairment or changes in estimates of useful lives are necessary.

(d) Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade receivables, prepayments, other receivables, amounts due from related companies and current financial liabilities including trade payables and note payables, other payables and accrued expenses and amounts due to related companies, approximate their fair values due to their short maturities.

(e) Revenue recognition

As discussed in Note 2(d), passenger, cargo and mail revenues are recognised as traffic revenues when the transportation services are provided. The value of unused passenger tickets is included in current liabilities as sales in advance of carriage. Unused tickets are recognised in traffic revenues based on current estimates. Management periodically evaluate the balance in sales in advance of carriage and record any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions, the timing of recognising revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

4. Critical accounting estimates and judgements (Cont'd)

(f) Overhaul costs

The amount of overhaul costs charged/amortised to operating profits is impacted by management's estimates of the expected flying hours/cycles and overhaul costs, which are largely based on past experience of overhauls of the same or similar models of aircraft and engines. Different judgements or estimates could significantly affect the estimated overhaul provision and materially impact the results of operations.

(g) Retirement benefits

The Group operates and maintains defined retirement benefit plans which provides retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. As discussed in Note 2(f), the cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the employees' service period by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is discussed in Note 35.

(h) Deferred taxation

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carryforwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

(i) Current tax

The Group makes provision for current tax based on the estimated income tax liabilities. The estimated income tax liabilities are primarily computed based on the tax filings as prepared by the Group and based on management's interpretation of relevant tax rulings. From time to time, there may be disagreements with the tax authorities on the tax treatments of certain items included in the tax computations.

5. Revenues

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

	Group	
	2005	2004
	RMB'000	RMB'000
Revenues		
Traffic revenues (a)		
– Passenger	**21,367,747**	15,925,933
– Cargo and mail	**5,087,244**	4,540,463
Commission income	**185,827**	292,991
Ground service income	**806,755**	695,433
Cargo handling income	**292,488**	227,806
Rental income from operating subleases of aircraft	**183,260**	121,480
Others	**198,175**	110,615
	28,121,496	21,914,721
Less: Business tax (b)	**(667,053)**	(528,168)
	27,454,443	21,386,553

Notes:

(a) Since the terrorist attacks on the World Trade Centre in New York in September 2001, many airlines introduced insurance and security surcharges on passenger air tickets (collectively the "Surcharges"). Such Surcharges are generally recognised as revenue, together with the other components of the ticket price, when the transportation services are provided.

For tickets that are issued by the Group but where the transportation services are provided by another carrier, there was (i) industry guidance which permitted the billing of such Surcharges on a negotiated basis and (ii) diversity in practice among the carriers on the billing of the Surcharges. Accordingly, the Company deferred recognition of the Surcharges as revenue. Management believes such Surcharges will no longer be payable based on general industry acceptance of non billing and industry guidance issued by the Accounting Centre of China Aviation, the sole agent for interline billing of PRC airlines, in December 2005. Accordingly, the Surcharges related to tickets uplifted between 2002 and 2004 in the amount of RMB131,023,000 were released from other payables and recognised as revenue in 2005.

From 1 January 2005, the above insurance and security surcharges together with other surcharges are recognised as revenue once the transportation services are provided, or once the ticket price has been billed through interline billing in the case where transportation services are provided by another carrier.

5. Revenues (Cont'd)

(b) Except for traffic revenues derived from inbound international and regional flights, which are not subject to PRC business tax, the Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to PRC business tax levied at rates ranging from 3% to 5%, pursuant to PRC business tax rules and regulations.

6. Other Operating Income

	Group	
	2005	2004
	RMB'000	RMB'000
Government subsidies (a)	**193,069**	73,506
Net fair value gains on financial instruments		
– forward foreign exchange contract	**25,002**	11,498
– fuel hedging income	**27,208**	–
	245,279	85,004

Note:

(a) The government subsidies represent

(i) subsidies granted by the local government to the Company from 2002 to 2005 in consideration of the relocation of the Company's international flights and related facilities from Shanghai Hongqiao Airport to Pudong International Airport; and

(ii) subsidies granted by various local municipalities to encourage the Group to operate certain routes to the places where these municipalities are located.

7. Segment Information

(a) Primary reporting format by business segment

The Group principally operates in one business segment, which is the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

7. Segment Information (Cont'd)

(b) Secondary reporting format by geographical segment

The Group's revenues (net of business tax) and results by geographical segment are analysed as follows:

	Domestic# RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	Total RMB'000
2005					
Traffic revenues					
– Passenger	**11,438,773**	**2,494,669**	**2,009,137**	**4,910,693**	**20,853,272**
– Cargo and mail	**346,428**	**641,686**	**623,678**	**3,354,998**	**4,966,790**
	11,785,201	**3,136,355**	**2,632,815**	**8,265,691**	**25,820,062**
Commission income	**124,037**	**13,768**	**11,557**	**36,285**	**185,647**
Ground service income	**794,814**	**–**	**–**	**–**	**794,814**
Cargo handling income	**281,901**	**–**	**–**	**–**	**281,901**
Rental income from operating sublease of aircraft	**183,260**	**–**	**–**	**–**	**183,260**
Other operating revenues	**188,759**	**–**	**–**	**–**	**188,759**
	13,357,972	**3,150,123**	**2,644,372**	**8,301,976**	**27,454,443**
Other operating income	**214,277**	**6,000**	**25,002**	**–**	**245,279**
Segment results (operating profit)	**(658,153)**	**184,578**	**(451,742)**	**939,565**	**14,248**

	Domestic# RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	Total RMB'000
2004					
Traffic revenues					
– Passenger	8,283,700	2,239,968	1,502,326	3,508,105	15,534,099
– Cargo and mail	298,846	592,008	647,181	2,890,325	4,428,360
	8,582,546	2,831,976	2,149,507	6,398,430	19,962,459
Commission income	201,146	22,297	16,924	50,376	290,743
Ground service income	692,178	–	–	–	692,178
Cargo handling income	224,356	–	–	–	224,356
Rental income from operating sublease of aircraft	121,480	–	–	–	121,480
Other operating revenues	95,337	–	–	–	95,337
	9,917,043	2,854,273	2,166,431	6,448,806	21,386,553
Other operating income	83,004	2,000	–	–	85,004
Segment results (operating profit)	188,645	354,754	243,979	445,006	1,232,384

#: *The People's Republic of China, excluding the Hong Kong Special Administrative Region.*

*: *include the United States of America, Europe and Asian countries other than Japan.*

7. Segment Information (Cont'd)

(b) Secondary reporting format by geographical segment (Cont'd)

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

8. Wages, Salaries and Benefits

	Group	
	2005	2004
	RMB'000	RMB'000
Wages, salaries, bonus and allowances	**1,774,292**	1,549,339
Employee welfare and benefits	**166,267**	41,383
Staff housing allowance (Note 36(b))	**36,231**	29,253
Defined contribution retirement schemes (Note 35(a))	**280,218**	194,200
Post-retirement benefits (Note 35(b))	**102,459**	51,704
	2,359,467	1,865,879

8. Wages, Salaries and Benefits (Cont'd)

(a) Emoluments of directors, supervisors and senior management

Details of the emoluments paid to the Company's directors, supervisors and senior management are as follows:

	2005		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive directors			
Li Fenghua*	–	–	–
Luo Chaogeng*	–	–	–
Cao Jainxiong*	–	–	–
Wan Mingwu*	–	–	–
Zhong Xiong*	–	–	–
Luo Zhuping	103	59	162
Independent non-executive directors			
Hu Honggao*	–	–	–
Peter Lok *	–	–	–
Wu Baiwang*	–	–	–
Zhou Ruijin*	–	–	–
Xie Rong*	–	–	–
Supervisors			
Li Wenxin*	–	–	–
Ba Shengji*	–	–	–
Yang Xingen	86	55	141
Yang Jie	66	49	115
Liu Jiashun*	–	–	–
Vice executive directors			
Wu Jiuhong	119	231	350
Zhou Liguo	126	352	478
Zhang Jianzhong	101	93	194
Tong Guozhao	121	352	473
Li Yangmin	90	55	145
Finance controller			
Luo Weide	111	75	186
Total	923	1,321	2,244

8. Wages, Salaries and Benefits (Cont'd)

(a) Emoluments of directors, supervisors and senior management (Cont'd)

	2004		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive directors			
Li Fenghua*	–	–	–
Luo Chaogeng*	–	–	–
Cao Jainxiong*	–	–	–
Wan Mingwu	119	187	306
Zhong Xiong*	–	–	–
Luo Zhuping	78	88	166
Independent non-executive directors			
Hu Honggao*	–	–	–
Peter Lok*	–	–	–
Wu Baiwang*	–	–	–
Zhou Ruijin*	–	–	–
Xie Rong*	–	–	–
Supervisors			
Li Wenxin*	–	–	–
Ba Shengji*	–	–	–
Yang Xingen	72	64	136
Yang Jie	50	55	105
Liu Jiashun*	–	–	–
Vice Executive directors			
Wu Jiuhong	89	262	351
Yang Xu	78	123	201
Zhou Liguo	121	322	443
Zhang Jianzhong	78	123	201
Wu Yunlin	91	320	411
Finance Controller			
Luo Weide	84	123	207
Total	860	1,667	2,527

* *Certain directors of the Company received emoluments from CEA Holding, the parent company, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to the Group and their services to CEA Holding.*

8. Wages, Salaries and Benefits (Cont'd)

(a) Emoluments of directors, supervisors and senior management (Cont'd)

During the year ended 31 December 2005, no directors and supervisors waived their emoluments (2004: nil).

(b) Five highest paid individuals

None (2004: one) of the directors, whose emoluments reflected in the above analysis was among the five highest paid individuals in the Group for the year. The emoluments payable to the five (2004: remaining four) highest paid individuals are as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Wages, salaries, bonus and allowances	**1,679**	1,412

The emoluments fell within the following band:

	Number of individuals	
Emolument band	**2005**	2004
Below HK$1,000,000	**5**	4

During the year ended 31 December 2005, no emoluments were paid by the Group to the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2004: nil).

9. Finance Costs

	Group	
	2005	2004
	RMB'000	RMB'000
Interest relating to obligations under finance leases		
– wholly repayable within five years	**195,764**	265,949
– not wholly repayable within five years	**128,869**	73,327
	324,633	339,276
Interest on loans from bank and financial institutions		
– wholly repayable within five years	**729,698**	410,998
– not wholly repayable within five years	**243,433**	144,693
	973,131	555,691
Interest relating to note payables	**52,639**	22,148
Amortisation of the discount on zero coupon debentures	**22,944**	–
Interest relating to a long-term payable (Note 34)	**6,999**	8,344
	1,380,346	925,459
Less: amounts capitalised into advance payments on acquisition of aircraft (Note 17)	**(279,989)**	(57,120)
	1,100,357	868,339
Net foreign exchange (gains)/losses (a)	**(414,640)**	32,207
Waiver of amounts due to related companies	**–**	(133,029)
Fair value losses on financial instruments		
– transfer from equity in respect of interests rate swap qualified as cash flow hedges	**21,333**	2,659
	707,050	770,176

Note:

(a) The exchange gain for the year ended 31 December 2005 primarily relates to revaluation of the Group's foreign currency denominated borrowings and obligations under finance leases.

10. (Loss)/Profit before Income Tax

(Loss)/profit before income tax is stated after:

	Group	
	2005 **RMB'000**	2004 RMB'000
Charging:		
Depreciation of property, plant and equipment	**3,911,722**	3,076,585
Operating lease rentals		
– aircraft	**1,785,615**	1,720,736
– land and buildings	**212,027**	146,704
Amortisation of lease prepayments	**25,219**	18,414
Amortisation of goodwill	**–**	5,654
Consumption of flight equipment spare parts	**239,134**	139,711
Allowances for obsolescence of flight equipment spare parts	**–**	73,406
Provision for impairment of trade and other receivables	**25,325**	24,250
Auditors' remuneration	**10,000**	7,380
and crediting:		
Amortisation of negative goodwill	**–**	3,452
Reversal of allowances for obsolescence of flight equipment spare parts	**13,930**	–
Gain on disposals of property, plant and equipment	**8,073**	47,819
Gain on disposals of financial asset held for trading	**–**	5,235

11. Taxation

Taxation (credited)/charged to the consolidated income statement is as follows:

	Group	
	2005 **RMB'000**	2004 RMB'000
Provision for PRC income tax, net of reversal	**(81,734)**	160,502
Deferred taxation (Note 33)	**(56,970)**	(30,901)
	(138,704)	129,601

11. Taxation (Cont'd)

The Company is subject to PRC income tax at a reduced rate of 15%, pursuant to the Circular Hu Shui Er Cai (2001) No. 104 issued by the Shanghai Municipal State Tax Bureau. Two of the major subsidiaries of the Group, namely China Cargo Airlines Co. Ltd., and Shanghai Eastern Flight Training Co., Ltd , are subject to PRC income tax at a reduced rate of 15%, pursuant to the preferential tax policy in Pudong, Shanghai. Shanghai Eastern Logistics Co., Ltd. is exempted from PRC income tax in 2005 pursuant to the circular Hu Di Shui Er Shui (2004) No.68 issued by Shanghai Municipal State Tax Bureau. Other subsidiaries of the Group are subject to PRC corporate income tax at the standard rate of 33%.

The tax on the Group's consolidated income statement differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
(Loss)/profit before taxation	**(577,432)**	585,972
Adjusted:		
Share of result of associates and jointly controlled entities	**13,330**	5,256
	(564,102)	591,228
Tax calculated at enacted tax rate of 15%	**84,615**	(88,684)
Effect attributable to subsidiaries charged at tax rate of 33%	**18,334**	(17,578)
Effect attributable to subsidiaries with income tax exemption	**33,852**	–
Income not subject to taxation	**4,462**	–
Expenses not deductible for tax purposes	**(5,642)**	(27,673)
Reversal of income tax provision made in prior years as a result of tax clearance with local tax bureau	**81,807**	–
Unrecognised tax losses	**(86,074)**	–
Utilisation of previously unrecognised tax losses	**–**	6,395
Others	**7,350**	(2,061)
Tax credit/(charge)	**138,704**	(129,601)

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended 31 December 2005 and 2004, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation business.

12. Dividend

Dividend of RMB97,339,000 (RMB0.02 per share) in respect of the year ended 31 December 2004 were paid in 2005.

The Board of Directors of the Company has recommended not to pay any dividend in respect of the year ended 31 December 2005.

13. (Loss)/Earnings per Share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of RMB467,307,000 (2004: profit of RMB320,691,000) and 4,866,950,000 (2004: 4,866,950,000) weighted average number of shares in issue during the year. The Company has no potential dilutive ordinary shares.

14. Property, Plant and Equipment

	Group				
	Aircraft, engines and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2004, as restated	24,519,802	10,082,423	2,224,520	2,038,181	38,864,926
Reclassification and rebate upon a purchase (a)	569,935	(668,856)	–	–	(98,921)
Transfers from construction in progress (Note 15)	–	–	84,847	124,352	209,199
Transfers from advance payments on acquisition of aircraft (Note 17)	535,548	1,079,852	–	–	1,615,400
Additions	1,842,596	2,959,232	22,159	227,428	5,051,415
Disposals	(1,325,196)	–	(77,511)	(68,604)	(1,471,311)
At 31 December 2004	26,142,685	13,452,651	2,254,015	2,321,357	44,170,708
Accumulated depreciation					
At 1 January 2004, as restated	8,154,254	2,774,749	334,951	937,589	12,201,543
Reclassification upon a purchase	328,373	(328,373)	–	–	–
Charge for the year	1,927,554	818,233	85,761	245,037	3,076,585
Disposals	(771,710)	–	(28,503)	(51,093)	(851,306)
At 31 December 2004	9,638,471	3,264,609	392,209	1,131,533	14,426,822
Net book amount					
At 31 December 2004	16,504,214	10,188,042	1,861,806	1,189,824	29,743,886
At 1 January 2004	16,365,548	7,307,674	1,889,569	1,100,592	26,663,383

14. Property, Plant and Equipment (Cont'd)

	Group				
	Aircraft, engines and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2005	26,142,685	13,452,651	2,254,015	2,321,357	44,170,708
Transfers from construction in progress (Note 15)	–	–	33,582	116,985	150,567
Transfers from advance payments on acquisition of aircraft (Note 17)	445,949	1,191,167	–	–	1,637,116
Additions through business acquisitions (Note 40)	4,781,327	2,155,855	72,222	293,429	7,302,833
Other additions	1,952,356	991,640	71,451	463,023	3,478,470
Disposals	(67,354)	–	(6,281)	(125,299)	(198,934)
At 31 December 2005	33,254,963	17,791,313	2,424,989	3,069,495	56,540,760
Accumulated depreciation					
At 1 January 2005	9,638,471	3,264,609	392,209	1,131,533	14,426,822
Charge for the year	2,307,706	1,161,395	87,284	355,337	3,911,722
Disposals	(66,030)	–	(159)	(79,111)	(145,300)
At 31 December 2005	11,880,147	4,426,004	479,334	1,407,759	18,193,244
Net book amount					
At 31 December 2005	21,374,816	13,365,309	1,945,655	1,661,736	38,347,516
At 1 January 2005	16,504,214	10,188,042	1,861,806	1,189,824	29,743,886

14. Property, Plant and Equipment (Cont'd)

	Company				
	Aircraft, engines and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2004, as restated	19,416,360	10,082,423	1,347,425	1,392,428	32,238,636
Reclassification and rebate upon a purchase (a)	569,935	(668,856)	–	–	(98,921)
Transfer to a subsidiary	(569,935)	–	–	–	(569,935)
Transfers from construction in progress (Note 15)	–	–	75,659	13,218	88,877
Transfers from advance payments on acquisition of aircraft (Note 17)	535,548	1,079,852	–	–	1,615,400
Additions	1,441,588	2,959,232	20,812	188,199	4,609,831
Disposals	(1,325,196)	–	(72,901)	(57,072)	(1,455,169)
At 31 December 2004	20,068,300	13,452,651	1,370,995	1,536,773	36,428,719
Accumulated depreciation					
At 1 January 2004, as restated	6,193,716	2,774,749	235,517	698,722	9,902,704
Reclassification upon a purchase	328,373	(328,373)	–	–	–
Transfer to a subsidiary	(328,373)	–	–	–	(328,373)
Charge for the year	1,425,509	818,233	56,878	179,772	2,480,392
Disposals	(771,710)	–	(28,021)	(41,651)	(841,382)
At 31 December 2004	6,847,515	3,264,609	264,374	836,843	11,213,341
Net book amount					
At 31 December 2004	13,220,785	10,188,042	1,106,621	699,930	25,215,378
At 1 January 2004	13,222,644	7,307,674	1,111,908	693,706	22,335,932

14. Property, Plant and Equipment (Cont'd)

	Company				
	Aircraft, engines and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2005	20,068,300	13,452,651	1,370,995	1,536,773	36,428,719
Transfer to a subsidiary	(779,895)	–	–	–	(779,895)
Transfers from construction in progress (Note 15)	–	–	18,847	16,582	35,429
Transfers from advance payments on acquisition of aircraft (Note 17)	445,949	682,020	–	–	1,127,969
Additions through business acquisitions (Note 40)	4,781,327	2,155,855	72,222	293,429	7,302,833
Other additions	1,138,394	375,995	14,195	379,907	1,908,491
Disposals	(67,354)	–	(2,836)	(106,801)	(176,991)
At 31 December 2005	25,586,721	16,666,521	1,473,423	2,119,890	45,846,555
Accumulated depreciation					
At 1 January 2005	6,847,515	3,264,609	264,374	836,843	11,213,341
Transfer to a subsidiary	(599,975)	–	–	–	(599,975)
Charge for the year	1,780,387	1,119,334	53,914	279,078	3,232,713
Disposals	(66,030)	–	(104)	(69,993)	(136,127)
At 31 December 2005	7,961,897	4,383,943	318,184	1,045,928	13,709,952
Net book amount					
At 31 December 2005	17,624,824	12,282,578	1,155,239	1,073,962	32,136,603
At 1 January 2005	13,220,785	10,188,042	1,106,621	699,930	25,215,378

14. Property, Plant and Equipment (Cont'd)

Notes:

(a) In January 2004, the Company exercised its right to terminate a finance lease arrangement and purchased an aircraft at a consideration equal to the present value of the remaining minimum lease payments on the date of the purchase. In this connection, the Company was entitled to a rebate of RMB98,921,000, as it had met certain conditions as defined in the original lease arrangement. Such a rebate was recognised as a reduction is the cost of the aircraft.

(b) The Group's property, plant and equipment is stated at fair value. The latest independent valuation was performed at 30 June 2001.

Had the property, plant and equipment of the Group and the Company been stated at cost less accumulated depreciation and impairment losses, the carrying amounts of property, plant and equipment would have been as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December	**37,354,833**	28,352,959	**31,388,179**	23,994,364

(c) As at 31 December 2005, aircraft owned by the Group/the Company with an aggregate net book amount of approximately RMB9,843,773,000 (2004: RMB9,737,032,000) were pledged as collateral under certain loan arrangements (see Note 30).

15. Construction in Progress

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**188,654**	219,788	**77,534**	92,520
Additions through business acquisitions (Note 40)	**13,577**	–	**13,577**	–
Other additions	**189,220**	178,065	**33,120**	73,891
Transfer to property, plant and equipment (Note 14)	**(150,567)**	(209,199)	**(35,429)**	(88,877)
At 31 December	**240,884**	188,654	**88,802**	77,534
Representing:				
Buildings	**103,418**	81,599	**66,591**	60,952
Other property, plant and equipment	**137,466**	107,055	**22,211**	16,582
	240,884	188,654	**88,802**	77,534

16. Lease Prepayments

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
At 1 January	**965,462**	965,462	**486,168**	486,168
Additions through business acquisitions (Note 40)	**74,339**	–	**74,339**	–
Other additions	**94,843**	–	**22,114**	–
At 31 December	**1,134,644**	965,462	**582,621**	486,168
Accumulated amortisation				
At 1 January	**136,654**	118,240	**89,687**	81,061
Amortisation charge	**25,219**	18,414	**11,334**	8,626
At 31 December	**161,873**	136,654	**101,021**	89,687
Net book amount				
At 31 December	**972,771**	828,808	**481,600**	396,481

Lease prepayments represent unamortised prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2005, the majority of these land use rights had remaining terms ranging from 41 to 49 years (2004: from 42 to 48 years).

Certificates of certain land use rights owned by the Group, with nil carrying value (2004: nil), are currently registered under the name of CEA Holding and held by CEA Holding on behalf of the Group. The Group is entitled to lawfully and validly occupy and use these lands for its daily operations. The procedures to change the registration of the land use rights certificates with the relevant municipal land bureaus are currently being addressed by CEA Holding. Until the completion of these transfer procedures, the Group is unable to assign or pledge these land use right. The Company's directors do not believe the lack of certificates of certain land use rights has any material impact on the financial position of the Group.

17. Advance Payments on Acquisition of Aircraft

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**2,678,603**	2,239,893	**2,678,603**	2,239,893
Additions	**7,751,197**	1,996,990	**6,341,709**	1,996,990
Interest capitalised (Note 9)	**279,989**	57,120	**265,172**	57,120
Transfers to property, plant and equipment (Note 14)	**(1,637,116)**	(1,615,400)	**(1,127,969)**	(1,615,400)
At 31 December	**9,072,673**	2,678,603	**8,157,515**	2,678,603

Included in the Group's and the Company's balance as at 31 December 2005 is accumulated interest capitalised of RMB409,530,000 (2004: RMB160,016,000), at an average interest rate of 4.0% (2004: 4.0%).

18. Intangible Assets

	Group and Company		
	Goodwill RMB'000	**Negative goodwill RMB'000**	**Net Balance RMB'000**
At 1 January 2004			
Cost	113,105	(55,245)	57,860
Accumulated amortisation and impairment	(28,275)	8,920	(19,355)
Net book amount, at end of year	84,830	(46,325)	38,505
Year ended 31 December 2004			
Net book amount, at beginning of year	84,830	(46,325)	38,505
Amortisation (charge)/credit	(5,654)	3,452	(2,202)
Net book amount, at end of year	79,176	(42,873)	36,303
At 31 December 2004			
Cost	113,105	(55,245)	57,860
Accumulated amortisation and impairment	(33,929)	12,372	(21,557)
Net book amount, at end of year	79,176	(42,873)	36,303
Year ended 31 December 2005			
Net book amount, at beginning of year as previously presented	**79,176**	**(42,873)**	**36,303**
Opening adjustment on derecognition of negative goodwill	**–**	**42,873**	**42,873**
	79,176	**–**	**79,176**
Additions through business acquisitions (Note 40)	**609,135**	**–**	**609,135**
Net book amount, at end of year	**688,311**	**–**	**688,311**

18. Intangible Assets (Cont'd)

The amortisation of goodwill of RMB5,654,000 and negative goodwill of RMB3,452,000 for the year ended 31 December 2004 is included in "other depreciation, amortisation and operating lease" in the consolidated income statement.

Impairment tests for goodwill

The Company operates in one cash-generating unit ("CGU") which is the carriage of passenger, cargo and mail over various routes.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the aviation business in which the CGU operates.

Key assumptions used for value-in-use calculations

– Gross margin	20%
– Growth rate	10%
– Discount rate	5%

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to the Company's business.

19. Investments in Subsidiaries

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**2,163,864**	2,163,864
Amounts due from subsidiaries	**348,626**	614,652
	2,512,490	2,778,516

Amounts due from subsidiaries are unsecured, non-interest bearing and are not repayable before 1 January 2007.

19. Investments in Subsidiaries (Cont'd)

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

Company	Place and date of establishment	Paid-up capital 2005 RMB'000	Paid-up capital 2004 RMB'000	Attributable equity interest 2005	Attributable equity interest 2004	Principal activities
China Cargo Airlines Co., Ltd.	PRC 22 July 1998	**500,000**	500,000	**70%**	70%	Provision of cargo carriage services
Shanghai Eastern Airlines Logistics Co., Ltd.	PRC 23 August 2004	**200,000**	200,000	**70%**	70%	Provision of cargo logistics services
China Eastern Airlines Jiangsu Co., Ltd.	PRC 3 May 1993	**880,000**	803,666	**63%**	63%	Provision of airline services
Eastern Airlines Hotel Co., Ltd.	PRC 18 March 1998	**70,000**	70,000	**86%**	86%	Provision of hotel services primarily to crew members
Shanghai Eastern Airlines Investment Co., Ltd.	PRC 8 May 2002	**412,500**	412,500	**99%**	99%	Investment holding
Shanghai Eastern Flight Training Co., Ltd.	PRC 18 December 1995	**473,000**	473,000	**95%**	95%	Provision of flight training services
Shanghai Eastern Maintenance Co., Ltd.	PRC 27 November 2002	**25,658**	25,658	**60%**	60%	Provision of aircraft repairment and maintenance
China Eastern Fudart Transportation Service Co., Ltd.	PRC 1 April 1993	**5,714**	5,714	**51%**	51%	Provision of agency services for transportation of import and export cargo by air or sea

20. Investments in Associates

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**763,240**	757,676	**620,659**	615,095
Goodwill	**47,060**	47,060	**–**	–
Share of post acquisition results/reserves	**(180,554)**	(171,524)	**–**	–
	629,746	633,212	**620,659**	615,095

Movement of investments in associates is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**633,212**	656,054	**615,095**	602,422
Cost of additional investment	**5,564**	27,682	**5,564**	12,673
Share of results	**(9,030)**	(44,318)	**–**	–
Amortisation of goodwill	**–**	(6,206)	**–**	–
At 31 December	**629,746**	633,212	**620,659**	615,095

20. Investments in Associates (Cont'd)

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

Company	Place and date of establishment	Paid-up capital RMB'000	Attributable equity interest 2005	2004	Principal activities
China Eastern Airlines Wuhan Co., Ltd. (a) ("CEA Wuhan")	PRC 16 August 2002	600,000	**40%**	40%	Provision of air transportation services
Eastern Air Group Finance Co., Ltd. ("EAGF")	PRC 6 December 1995	400,000	**25%**	25%	Provision of financial services to group companies of CEA Holding
Eastern Aviation Advertising Services Co., Ltd.	PRC 4 March 1986	10,000	**45%**	45%	Provision of aviation advertising agency services
China Eastern Air Catering Investment Co., Ltd.	PRC 17 November 2003	350,000	**45%**	45%	Provision of air catering services
Eastern Aviation Import & Export Co., Ltd. ("EAIEC")	PRC 9 June 1993	80,000	**45%**	45%	Provision of aviation equipment, spare parts and tools trading
Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC")	PRC 17 October 2004	31,000	**45%**	45%	Provision of travelling and accommodation agency services

20. Investments in Associates (Cont'd)

Company	Place and date of establishment	Paid-up capital RMB'000	Attributable equity interest 2005	Attributable equity interest 2004	Principal activities
Qingdao Liuting International Airport Co., Ltd.	PRC 1 December 2000	450,000	**25%**	25%	Provision of airport operation services
Collins Aviation Maintenance Service Shanghai Ltd.	PRC 27 September 2002	57,980	**35%**	35%	Provision of airline electronics products maintenance services
Shanghai Hongpu Civil Airport Communication Co., Ltd.	PRC 18 October 2002	25,000	**30%**	30%	Provision of cable and wireless communication services
China Eastern Airlines Development (HK) Co., Ltd.	PRC 20 May 1995	10,162	**40%**	40%	Provision of ticket sales and goods logistics
Jiangsu Huayu General Aviation Co., Ltd.	PRC 1 Dec 2004	110,000	**27%**	27%	Provision of aviation supporting services

Notes:

(a) Subsequent to 31 December 2005, the Company completed acquisitions amounting in aggregate to an additional 56% interest in China Eastern Airlines Wuhan Co., Ltd. (Note 44).

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Loss RMB'000
2005	**1,807,387**	**1,177,641**	**887,928**	**(9,030)**
2004	2,098,974	1,465,762	915,174	(44,318)

21. Investments in Jointly Controlled Entities

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**59,552**	7,680	**59,552**	7,680
Share of post-acquisition results/reserves	**40,968**	45,268	**–**	–
	100,520	52,948	**59,552**	7,680

The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

	Assets	Liabilities	Revenues	(Loss)/ profit
	RMB'000	RMB'000	RMB'000	RMB'000
2005	**142,667**	**42,147**	**133,570**	**(4,300)**
2004	65,813	12,865	102,587	45,268

Movement of investments in jointly controlled entities is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**52,948**	–	**7,680**	–
Cost of additional investment	**51,872**	7,680	**51,872**	7,680
Share of results	**(4,300)**	45,268	**–**	–
At 31 December	**100,520**	52,948	**59,552**	7,680

21. Investments in Jointly Controlled Entities (Cont'd)

Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC are as follows:

Company	Place and date of establishment	Paid-up capital RMB'000	Attributable equity interest 2005	2004	Principal activities
Shanghai Technologies Aerospace Co., Ltd. ("STA") (a)	PRC 28 September 2004	113,843	**51%**	–	Provision of repair and maintenance
Shanghai Eastern Union Aviation Wheels & Brakes Overhual Engineering Co., Ltd ("Wheels & Brakes")	PRC 28 December 1995	17,484	**40%**	40%	Provision of spare parts repair and maintenance
Eastern China Kaiya System Integration Co., Ltd.	PRC 21 May 1999	10,000	**41%**	41%	Provision of computer systems development

Note:

(a) Under a Joint Venture Agreement dated 10 March 2003, the Company has agreed to share control over the economic activities of STA. Any strategic financial and operating decisions relating to the activities of STA require the unanimous consent of the Company and the other joint venture partner.

22. Other Long-term Assets

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long-term bank deposits (a)	**2,026,220**	1,908,398	**2,026,220**	1,908,398
Deposits relating to aircraft under operating leases (b)	**446,323**	133,159	**425,850**	133,159
Prepaid customs duty and value added tax	**4,756**	21,083	**4,756**	21,083
Rental and renovation deposits	**34,777**	18,558	**34,777**	18,558
Prepaid staff benefits (c)	**62,096**	28,439	**54,178**	20,691
Other long-term receivables	**131,386**	92,969	**50,740**	79,692
	2,705,558	2,202,606	**2,596,521**	2,181,581

Notes:

(a) The long-term bank deposits are pledged as collateral under certain finance lease arrangements (see Note 29). As at 31 December 2005, the effective interest rate on the long-term bank deposits was 3.6% (2004: 5.0%) per annum. The deposits have average maturities of 4.4 years. The fair value of long-term bank deposits of both the Group and the Company are RMB2,114 million (2004: RMB1,991 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 2.5% to 6.5% (2004: 2.5% to 7.0%).

(b) The fair value of deposits relating to aircraft under operating leases of both the Group and the Company are RMB446 million and RMB426 million (2004: RMB133 million and RMB133 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 4.4% (2004: 2.4%).

(c) This represents subsidies to certain employees as an encouragement to purchase motor vehicles. The employees are required to serve the Group for six years from the date of receipt of the subsidies in order not to be required to repay the Group for the subsidy. If the employee leaves before the end of the six-year period, a refund by the employee is required calculated on a pro-rata basis. These subsidies are amortised over six years on the straight-line basis.

23. Trade Receivables

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

The aging analysis of trade receivables is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than 31 days	**1,580,082**	1,223,059	**1,031,946**	801,485
31 to 60 days	**134,095**	259,086	**56,918**	133,839
61 to 90 days	**122,377**	116,048	**108,014**	61,520
91 to 180 days	**34,097**	93,587	**14,603**	68,646
181 to 365 days	**13,302**	4,047	**11,523**	2,711
Over 365 days	**127,466**	89,208	**118,986**	81,155
	2,011,419	1,785,035	**1,341,990**	1,149,356
Less: provision for impairment of receivables	**(93,010)**	(77,973)	**(81,707)**	(71,820)
Trade receivables, net	**1,918,409**	1,707,062	**1,260,283**	1,077,536

24. Prepayments, Deposits and Other Receivables

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepaid aircraft operating lease rentals	**21,279**	19,373	**13,338**	19,373
Prepayment for acquisition of flight equipments and other assets	**179,206**	126,645	**179,206**	111,862
Deposits with banks and a financial institution with original maturity over three months but less than a year (a)	**175,332**	77,446	**8,888**	12,721
Custom duties and value added tax recoverable (b)	**114,781**	–	**66,887**	–
Rebate receivable on aircraft acquisitions	**102,582**	31,136	**78,314**	31,136
Rental deposits	**49,303**	43,674	**37,116**	32,930
Others	**354,788**	313,685	**304,794**	257,355
	997,271	611,959	**688,543**	465,377

24. Prepayments, Deposits and Other Receivables (Cont'd)

Notes:

(a) As at 31 December 2005, the effective interest rate on deposits with banks and a financial institution is 0.7% (2004: 0.7%).

(b) Pursuant to the Caiguanshui [2004] No. 63 issued by the Ministry of Finance on 29 December 2004, PRC airlines (including the Company, China Cargo Airlines Co., Ltd. and China Eastern Airlines Jiangsu Co., Ltd.) are subject to reduced custom duties and value added tax on imported flight equipment and overseas repair costs in relation to those aircraft flying on international and regional routes with effect from 1 January 2005. During the year ended 31 December 2005, the Group paid the related custom duties and value added tax at the standard rates and hence is entitled to a refund of over payment. As at 31 December 2005, the Group has aggregated recoverable balances of RMB114,781,000.

25. Cash and Cash Equivalents

The carrying amounts of the Group's and Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**1,281,206**	1,821,638	**415,462**	693,685
US Dollars	**333,099**	105,448	**306,254**	67,833
Japanese Yen	**76,591**	55,203	**55,803**	34,023
Euro	**37,420**	27,760	**28,163**	21,313
Pound Sterling	**22,979**	17,534	**22,979**	17,534
Australian Dollars	**18,969**	13,601	**18,969**	13,601
Singapore Dollars	**15,943**	15,063	**15,943**	15,063
Canadian Dollars	**14,187**	4,977	**14,187**	4,977
Others	**63,607**	53,223	**62,849**	53,223
	1,864,001	2,114,447	**940,609**	921,252

26. Trade Payables and Notes Payables

The aging analysis of trade payables and notes payables is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than 31 days	**1,697,293**	923,041	**1,593,009**	882,811
31 to 60 days	**397,187**	69,163	**364,480**	69,061
61 to 90 days	**195,869**	74,533	**163,058**	74,349
91 to 180 days	**846,775**	369,478	**605,039**	371,693
181 to 365 days	**212,025**	–	**212,025**	–
Over 365 days	**45,749**	21,002	**38,216**	13,471
	3,394,898	1,457,217	**2,975,827**	1,411,385

As at 31 December 2005, all notes payables totaling RMB 1,775,048,000 were unsecured. Discount rates ranged from 2.9% to 3.2% (2004: 3.8% to 4.1%) and all notes are repayable within six months.

27. Other Payables and Accrued Expenses

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued fuel cost	**1,415,797**	1,239,930	**1,262,586**	1,086,235
Accrued take-off and landing charges	**810,226**	724,164	**607,370**	604,654
Accrued aircraft overhaul expenses	**745,627**	461,200	**587,400**	396,554
Accrued salaries, wages and benefits	**271,963**	242,195	**238,234**	219,927
Other accrued operating expenses	**739,415**	492,109	**605,902**	356,523
Duties and levies payable	**755,373**	431,922	**707,060**	393,473
Current portion of provision for staff housing allowances (Note 36 (b))	**13,270**	93,427	**13,121**	85,387
Current portion of other long-term liabilities (Note 34)	**66,029**	30,000	**66,029**	30,000
Current portion of post-retirement benefit obligations (Note 35(b))	**35,825**	27,500	**34,528**	25,771
Staff housing fund payable (Note 36(a))	**136,510**	75,364	**136,510**	75,364
Deposit received from ticketing agents	**353,805**	215,335	**299,218**	172,398
Current portion of operating lease payable	**52,268**	–	**52,268**	–
Staff welfare payable	**39,433**	25,666	**31,915**	18,761
Others	**585,940**	407,212	**490,737**	374,354
	6,021,481	4,466,024	**5,132,878**	3,839,401

28. Provision for Aircraft Overhaul Expenses

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**254,009**	266,093	**200,725**	213,019
Additions through business acquisitions (Note 40)	**196,122**	–	**196,122**	–
Additional provisions	**64,700**	75,897	**54,767**	65,137
Reversal resulting from change in estimate (a)	**(58,577)**	(20,814)	**(58,577)**	(20,814)
Utilisation	**(52,255)**	(67,167)	**(44,202)**	(56,617)
At 31 December	**403,999**	254,009	**348,835**	200,725
Less: current portion	**(15,589)**	(52,798)	**(15,589)**	(42,463)
Long-term portion	**388,410**	201,211	**333,246**	158,262

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

Note:

(a) Prior to 2005, the overhauls for Company's certain aircraft models under operating leases were performed by overseas service providers. In 2005, the Company identified domestic facilities to carry out overhauls for certain aircraft models. The cost of the overhauls carried out domestically was lower than that in overseas. Accordingly, the Company changed its estimate for provision for aircraft overhauls as related those aircraft models.

29. Obligations under Finance Leases

At 31 December 2005, the Group and the Company had 26 and 24 aircraft (2004: 22 and 22 aircraft) respectively under finance leases. Under the terms of the leases, the Group/the Company has the option to purchase, at or near the end of the lease terms, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

29. Obligations under Finance Leases (Cont'd)

The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

	Group					
	2005			2004		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	2,885,047	457,010	2,428,037	1,526,981	337,333	1,189,648
In the second year	2,870,162	300,106	2,570,056	1,962,208	262,372	1,699,836
In the third to fifth year inclusive	3,487,110	472,914	3,014,196	3,924,600	168,346	3,756,254
After the fifth year	2,934,000	337,792	2,596,208	2,401,578	385,030	2,016,548
Total	12,176,319	1,567,822	10,608,497	9,815,367	1,153,081	8,662,286
Less: amount repayable within one year	(2,885,047)	(457,010)	(2,428,037)	(1,526,981)	(337,333)	(1,189,648)
Long-term portion	9,291,272	1,110,812	8,180,460	8,288,386	815,748	7,472,638

	Company					
	2005			2004		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	2,779,448	417,474	2,361,974	1,526,981	337,333	1,189,648
In the second year	2,764,563	263,806	2,500,757	1,962,208	262,372	1,699,836
In the third to fifth year inclusive	3,170,314	384,958	2,785,356	3,924,600	168,346	3,756,254
After the fifth year	2,394,194	270,326	2,123,868	2,401,578	385,030	2,016,548
Total	11,108,519	1,336,564	9,771,955	9,815,367	1,153,081	8,662,286
Less: amount repayable within one year	(2,779,448)	(417,474)	(2,361,974)	(1,526,981)	(337,333)	(1,189,648)
Long-term portion	8,329,071	919,090	7,409,981	8,288,386	815,748	7,472,638

The fair value of obligations under finance leases of the Group and the Company are RMB10,432 million and RMB9,690 million (2004: RMB8,382 million and RMB8,382 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 2.5% to 7.0% (2004: 2.5% to 7.0%).

At 31 December 2005, the Group and the Company had long-term bank deposits totaling RMB2,026,220,000 (2004: RMB1,908,398,000) pledged as collateral under certain finance lease arrangements (Note 22). In addition, the finance lease obligations are secured by the related aircraft, assignments of all benefits of the relevant insurance policies relating to the aircraft together with guarantees provided by certain banks in the PRC.

30. Borrowings

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Long-term bank borrowings				
– secured	**5,809,678**	2,987,920	**5,526,998**	2,987,920
– unsecured	**3,980,438**	4,554,908	**3,930,438**	4,532,561
	9,790,116	7,542,828	**9,457,436**	7,520,481
Current				
Long-term bank borrowings				
– secured	**1,555,313**	2,925,038	**1,516,173**	2,925,038
– unsecured	**1,313,917**	268,394	**1,313,917**	260,118
Short-term bank borrowings				
– secured	**33,000**	–	**–**	–
– unsecured	**13,677,856**	6,188,919	**10,571,230**	4,255,919
Debentures	**1,974,544**	–	**1,974,544**	–
	18,554,630	9,382,351	**15,375,864**	7,441,075
Total borrowings	**28,344,746**	16,925,179	**24,833,300**	14,961,556
The borrowings are repayable as follows:				
Within one year	**18,554,630**	9,382,351	**15,375,864**	7,441,075
In the second year	**2,663,434**	2,386,862	**2,631,154**	2,370,309
In the third to fifth year inclusive	**5,517,473**	3,216,181	**5,217,073**	3,210,387
After the fifth year	**1,609,209**	1,939,785	**1,609,209**	1,939,785
	28,344,746	16,925,179	**24,833,300**	14,961,556

The fair value of long-term borrowings of the Group and the Company are RMB12,044 million and RMB11,696 million (2004: RMB9,909 million and RMB9,879 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 4.5% (2004: 7.6%).

30. Borrowings (Cont'd)

The terms of the long-term bank loans are summarised as follows:

	Interest rate and final maturities	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
RMB denominated bank loans:					
Loans for working capital	Fixed interest rates ranging from 4.94% to 5.76% per annum as at 31 December 2005; 3-year loans with final maturity through to 2008.	**3,253,500**	1,710,100	**3,153,500**	1,710,100
Loans for the purchases of aircraft	Fixed interest rates of 5.18% per annum as at 31 December 2005; 2 to 8-year loans with final maturity through to 2012	**1,455,000**	880,000	**1,455,000**	880,000
Loans for construction projects	Fixed interest rates of 5.76% per annum as at 31 December 2005; 7 to 10-year loans with final maturities through to 2007	**200,000**	412,500	**200,000**	412,500
U.S. dollar denominated bank loans:					
Loans for the purchases of aircraft	Fixed interest rates ranging from 4.01% to 6.86% per annum 2 to 10-year loans with final maturities through to 2013	**296,120**	–	**296,120**	–
Loans for the purchases of aircraft	Floating interest rates ranging from 3 months LIBOR+0.25% to 6 months LIBOR+0.75% as at 31 December 2005; 2 to 10-year loans with final maturities through to 2015	**7,295,480**	7,703,037	**7,135,480**	7,703,037
Loan for the purchase of an aircraft simulator	Floating interest rates of 6 months LIBOR +0.6% as at 31 December 2005; 3-year loans with final maturity in 2007	**111,820**	30,623	**–**	–
Loan for finance* leases of aircraft	Fixed interest rates ranging from 6.46% to 8.62% per annum, repayable by instalments up to 2008	**47,426**	–	**47,426**	–
Total long-term bank loans		**12,659,346**	10,736,260	**12,287,526**	10,705,637

* These loans are secured by the related aircraft.

30. Borrowings (Cont'd)

Short-term borrowings of the Group and the Company are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. As at 31 December 2005, the interest rates relating to such borrowings were ranging from 2.22% to 5.04% per annum (2004: 2.06% to 5.04% per annum). During the year ended 31 December 2005, the weighted average interest rate on short-term bank loans was 4.62% per annum (2004: 3.34% per annum).

On 5 August 2005, the Company issued debentures with a face value of RMB1,000,000,000 at an issue price of RMB971,600,000, being 97.16% of the face value, and repayable on 4 August 2006. On 23 August 2005, the Company issued additional debentures with face value of RMB1,000,000,000 at an issue price of RMB980,000,000, being 98% of the face value, and repayable on 22 May 2006.

The zero coupon debentures are accounted for in the balance sheets of the Group and the Company as follows:

	2005 **RMB'000**
Nominal value	**2,000,000**
Less: Unamortised discount	**(25,456)**
	1,974,544

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		**Company**	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Renminbi	**13,112,485**	7,295,601	**10,521,485**	5,362,601
US Dollars	**15,232,261**	9,430,325	**14,311,815**	9,399,704
Japanese Yen	**–**	199,253	**–**	199,251
	28,344,746	16,925,179	**24,833,300**	14,961,556

As at 31 December 2005, the secured bank borrowings of the Group and the Company for the purchases of aircraft were secured by the related aircraft with an aggregate net book amount of RMB9,843,773,000 (2004: RMB9,737,032,000) (Note 14). Certain secured bank borrowings with aggregate amount of RMB2,899,386,000 (2004: RMB1,162,186,000) were also guaranteed by Export-Import Bank of the United States, China Industrial and Commercial Bank and China Construction Bank.

Certain unsecured bank borrowings of the Group and the Company totalling of RMB2,122,600,000 (2004: RMB2,122,600,000) were guaranteed by CEA Holding (Note 41).

31. Share Capital

	2005 **RMB'000**	2004 RMB'000
Registered, issued and fully paid of RMB1.00 each		
Unlisted shares held by CEA Holding and employees	**3,000,000**	3,000,000
A shares listed on The Shanghai Stock Exchange	**300,000**	300,000
H shares listed on The Stock Exchange of Hong Kong Limited	**1,566,950**	1,566,950
	4,866,950	4,866,950

Pursuant to articles 49 and 50 of the Company's Articles of Association, each of the unlisted shares, the listed A shares and the listed H shares are all registered ordinary shares and carry the same rights.

32. Reserves

	Share premium RMB'000	Statutory and discretionary reserves (Note (a)) RMB'000	Revaluation Reserve RMB'000	Capital reserve (Note (b)) RMB'000	Hedging reserve (Note 37) RMB'000	Retained profits RMB'000	Total RMB'000
Group							
At 1 January 2004, as previously presented	1,006,455	314,035	490,688	(720,057)	(77,879)	501,959	1,515,201
Effect of changes in accounting policy on the adoption of IAS 16	–	–	–	–	–	(207,609)	(207,609)
At 1 January 2004, restated	1,006,455	314,035	490,688	(720,057)	(77,879)	294,350	1,307,592
Unrealised losses on cashflow hedges (Note 37)							
– gross	–	–	–	–	(7,610)	–	(7,610)
– tax	–	–	–	–	1,141	–	1,141
Realised gains on cashflow hedges (Note 37)							
– gross	–	–	–	–	(8,839)	–	(8,839)
– tax	–	–	–	–	1,326	–	1,326
Profit attributable to equity holders of the Company	–	–	–	–	–	320,691	320,691
Transfer from retained profits to reserves (a)	–	67,136	–	–	–	(67,136)	–
At 31 December 2004	1,006,455	381,171	490,688	(720,057)	(91,861)	547,905	1,614,301
Group							
At 1 January 2005, as previously presented	**1,006,455**	**381,171**	**490,688**	**(720,057)**	**(91,861)**	**948,898**	**2,015,294**
Effect of changes in accounting policy on the adoption of IAS 16	**–**	**–**	**–**	**–**	**–**	**(400,993)**	**(400,993)**
At 1 January 2005, restated	**1,006,455**	**381,171**	**490,688**	**(720,057)**	**(91,861)**	**547,905**	**1,614,301**
Recognition of negative goodwill in retained profits on the adoption of IFRS 3	**–**	**–**	**–**	**–**	**–**	**42,873**	**42,873**
	1,006,455	**381,171**	**490,688**	**(720,057)**	**(91,861)**	**590,778**	**1,657,174**
Unrealised gains on cashflow hedges (Note 37)							
– gross	**–**	**–**	**–**	**–**	**181,449**	**–**	**181,449**
– tax	**–**	**–**	**–**	**–**	**(27,217)**	**–**	**(27,217)**
Realised gains on cashflow hedges (Note 37)							
– gross	**–**	**–**	**–**	**–**	**(20,759)**	**–**	**(20,759)**
– tax	**–**	**–**	**–**	**–**	**3,114**	**–**	**3,114**
Dividend relating to 2004	**–**	**–**	**–**	**–**	**–**	**(97,339)**	**(97,339)**
Loss attributable to equity holders of the company	**–**	**–**	**–**	**–**	**–**	**(467,307)**	**(467,307)**
Transfer from retained profits to reserves (a)	**–**	**26,671**	**–**	**–**	**–**	**(26,671)**	**–**
At 31 December 2005	**1,006,455**	**407,842**	**490,688**	**(720,057)**	**44,726**	**(539)**	**1,229,115**

32. Reserves (Cont'd)

	Share premium RMB'000	Statutory and discretionary reserves (Note (a)) RMB'000	Revaluation reserve RMB'000	Capital reserve (Note (b)) RMB'000	Hedging reserve (Note 37) RMB'000	Retained profits RMB'000	Total RMB'000
Company							
At 1 January 2004, as previously presented	1,006,455	182,336	448,859	(720,057)	(77,879)	131,249	970,963
Effect of changes in accounting policy on the adoption of IAS 16	–	–	–	–	–	(141,674)	(141,674)
At 1 January 2004, restated	1,006,455	182,336	448,859	(720,057)	(77,879)	(10,425)	829,289
Unrealised losses on cashflow hedges (Note 37)							
– gross	–	–	–	–	(7,610)	–	(7,610)
– tax	–	–	–	–	1,141	–	1,141
Realised gains on cashflow hedges (Note 37)							
– gross	–	–	–	–	(8,839)	–	(8,839)
– tax	–	–	–	–	1,326	–	1,326
Release of reserves upon disposals of aircraft, net of tax	–	–	(13,782)	–	–	13,782	–
Profit for the year	–	–	–	–	–	186,687	186,687
At 31 December 2004	1,006,455	182,336	435,077	(720,057)	(91,861)	190,044	1,001,994
Company							
At 1 January 2005, as previously presented	**1,006,455**	**182,336**	**435,077**	**(720,057)**	**(91,861)**	**538,322**	**1,350,272**
Effect of changes in accounting policy on the adoption of IAS 16	**–**	**–**	**–**	**–**	**–**	**(348,278)**	**(348,278)**
At 1 January 2005, restated	**1,006,455**	**182,336**	**435,077**	**(720,057)**	**(91,861)**	**190,044**	**1,001,994**
Recognition of negative goodwill in retained profits on the adoption of IFRS 3	**–**	**–**	**–**	**–**	**–**	**42,873**	**42,873**
	1,006,455	**182,336**	**435,077**	**(720,057)**	**(91,861)**	**232,917**	**1,044,867**
Unrealised gains on cashflow hedges (Note 37)							
– gross	**–**	**–**	**–**	**–**	**181,449**	**–**	**181,449**
– tax	**–**	**–**	**–**	**–**	**(27,217)**	**–**	**(27,217)**
Realised gains on cashflow hedges (Note 37)							
– gross	**–**	**–**	**–**	**–**	**(20,759)**	**–**	**(20,759)**
– tax	**–**	**–**	**–**	**–**	**3,114**	**–**	**3,114**
Dividend relating to 2004	**–**	**–**	**–**	**–**	**–**	**(97,339)**	**(97,339)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(406,362)**	**(406,362)**
At 31 December 2005	**1,006,455**	**182,336**	**435,077**	**(720,057)**	**44,726**	**(270,784)**	**677,753**

32. Reserves (Cont'd)

(a) Statutory and Discretionary Reserves

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Statutory common reserve fund	**196,746**	178,797	**77,214**	77,214
Statutory common welfare fund	**183,107**	174,385	**77,214**	77,214
Discretionary common reserve fund	**27,989**	27,989	**27,908**	27,908
	407,842	381,171	**182,336**	182,336

Pursuant to the PRC regulations and the Group companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

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

Each of the Group company is allowed to transfer 5% of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

For the year ended 31 December 2005, under the PRC Accounting Regulations, the Company recorded a loss for the year. Accordingly, no profit appropriation of the Company to reserves has been made for the year ended 31 December 2005 (2004: nil). The transfer from retained profits to reserves for the year represents the profit appropriation to reserves of certain subsidiaries of the Company.

(b) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of a group restructuring in June 1996.

33. Deferred Taxation

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets				
– Deferred tax asset to be utilised after 12 months	**286,764**	286,780	**271,442**	274,007
– Deferred tax asset to be utilised within 12 months	**148,075**	108,685	**100,764**	70,704
	434,839	395,465	**372,206**	344,711
Deferred tax liabilities				
– Deferred tax liability to be realised after 12 months	**(601,340)**	(687,850)	**(532,273)**	(623,653)
– Deferred tax liability to be realised within 12 months	**–**	–	**–**	–
	(601,340)	(687,850)	**(532,273)**	(623,653)
Deferred tax liabilities, net	**(166,501)**	(292,385)	**(160,067)**	(278,942)

Movements in net deferred taxation liability is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January as restated	**292,385**	325,753	**278,942**	289,635
Additions through business acquisitions (Note 40)	**(93,017)**	–	**(93,017)**	–
Credited to income statement (Note 11)	**(56,970)**	(30,901)	**(49,961)**	(8,226)
Charged/(credited) to equity				
– gain/(losses) on cashflow hedges (Note 32)	**24,103**	(2,467)	**24,103**	(2,467)
At 31 December	**166,501**	292,385	**160,067**	278,942

33. Deferred Taxation (Cont'd)

The deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) were made up of taxation effects of the followings:

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Deferred tax assets:				
Tax losses carried forward	**451,659**	349,562	**414,529**	349,562
Provision for obsolete flight equipment spare parts	**33,192**	54,014	**32,748**	53,108
Repair cost on flight equipment	**64,454**	119,039	**65,486**	120,071
Provision for post-retirement benefits	**185,102**	95,252	**168,842**	82,027
Other accrued expenses and derivative financial instruments	**139,949**	120,704	**92,988**	83,049
	874,356	738,571	**774,593**	687,817
Less: unrecognised assets	**(338,194)**	(252,120)	**(301,064)**	(252,120)
	536,162	486,451	**473,529**	435,697
Deferred tax liabilities:				
Provision for aircraft overhauls	**(143,517)**	(106,128)	**(111,579)**	(60,619)
Depreciation and amortisation	**(559,146)**	(672,708)	**(522,017)**	(654,020)
	(702,663)	(778,836)	**(633,596)**	(714,639)
Net deferred tax liabilities	**(166,501)**	(292,385)	**(160,067)**	(278,942)

Movements of net deferred tax liabilities of the Group for the year ended 31 December 2004:

	At 31 December 2003 RMB'000	(Charged)/ credited to income statement RMB'000	(Charged)/ credited to equity RMB'000	At 31 December 2004 RMB'000
Tax losses carried forward	54,401	43,041	–	97,442
Provision for obsolete flight equipment spare parts	41,960	12,054	–	54,014
Repair cost on flight equipment	160,541	(41,502)	–	119,039
Provision for post-retirement benefits	89,733	5,519	–	95,252
Other accrued expenses and derivative financial instruments	122,262	(4,025)	2,467	120,704
	468,897	15,087	2,467	486,451
Provision for aircraft overhauls	(103,853)	(2,275)	–	(106,128)
Depreciation and amortisation	(690,797)	18,089	–	(672,708)
	(794,650)	15,814	–	(778,836)
Movement of deferred tax liabilities	(325,753)	30,901	2,467	(292,385)

33. Deferred Taxation (Cont'd)

Movements of net deferred tax liabilities of the Group for the year ended 31 December 2005:

	At 31 December 2004 RMB'000	(Charged)/ credited to income statement RMB'000	(Charged)/ credited to equity RMB'000	Additions through business acquisitions (Note 40) RMB'000	At 31 December 2005 RMB'000
Tax losses carried forward	97,442	16,023	–	–	113,465
Provision for obsolete flight equipment spare parts	54,014	(20,628)	–	(194)	33,192
Repair cost on flight equipment	119,039	(54,585)	–	–	64,454
Provision for post-retirement benefits	95,252	12,066	–	77,784	185,102
Other accrued expenses and derivative financial instruments	120,704	35,081	(24,103)	8,267	139,949
	486,451	(12,043)	(24,103)	85,857	536,162
Provision for aircraft overhauls	(106,128)	5,185	–	(42,574)	(143,517)
Depreciation and amortisation	(672,708)	63,828	–	49,734	(559,146)
	(778,836)	69,013	–	7,160	(702,663)
Net deferred tax liabilities	(292,385)	56,970	(24,103)	93,017	(166,501)

In accordance with the PRC tax law, tax losses can be carried forward to off against future taxable income for a period of five years. As at 31 December 2005, the Group and the Company had tax losses carried forward of approximately RMB3,011,000,000 and RMB2,764,000,000 respectively (2004: RMB2,330,000,000 and RMB2,330,000,000 respectively) which will expire between 2006 and 2010, available to set off against the Group and the Company's future taxable income. As at 31 December 2005, the Group and the Company did not recognise RMB338,194,000 and RMB301,064,000 respectively (2004: RMB252,120,000 and RMB252,120,000 respectively) of deferred tax assets arising from the tax losses available as management did not consider it probable that such tax losses would be realised before they expire.

34. Other Long-term Liabilities

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Deferred credit on aircraft operating lease rental (a)	**43,645**	–
Deferred credit on government grants (b)	**70,410**	–
Other long-term payable (c)	**107,203**	130,204
	221,258	130,204
Less: Current portion (Note 27)	**(66,029)**	(30,000)
Long-term portion	**155,229**	100,204

Notes:

(a) Deferred credit on aircraft operating lease rental represents the unamortised portion of lease incentives from lessors.

(b) Deferred credit on government grants represents government grants received for construction and acquisition of safety and security facilities. As at 31 December 2005, the related facilities have not been constructed or purchased.

(c) The balance is unsecured, bearing interest at an effective rate of 6.21% per annum and is repayable by annual instalments of RMB30,000,000 (before taking into account of time value) up to year 2009.

35. Retirement Benefit Plans and Post-Retirement Benefits

(a) Defined contribution retirement schemes

(i) Pension

The Group companies participate in defined contribution retirement schemes organised by municipal governments of the various provinces in which the Group companies operate, and substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' prior year salary and allowances. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their basic salaries. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2005, the Group's pension cost charged to the consolidated income statement amounted to RMB228,264,000 (2004: RMB146,500,000).

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

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

(ii) Medical insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organised by the municipal governments, under which the Group and its employees are required to contribute to the scheme approximately 12% and 2%, respectively, of the employee's basic salaries. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2005, the Group's medical insurance contribution charged to the income statement amounted to RMB51,954,000 (2004: RMB47,700,000).

(b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with other post-retirement benefits including transportation subsidies, social function activities subsidies and others. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employees' turnover ratio.

The post-retirement benefit obligations recognised in the balance sheets are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Present value of unfunded post-retirement benefit obligations	**1,970,292**	731,077	**1,792,522**	611,568
Unrecognised actuarial gain	**(731,590)**	(85,345)	**(672,357)**	(71,623)
Post-retirement benefit obligations	**1,238,702**	645,732	**1,120,165**	539,945
Less: current portion (Note 27)	**(35,825)**	(27,500)	**(34,528)**	(25,771)
Long-term portion	**1,202,877**	618,232	**1,085,637**	514,174

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

(b) Post retirement benefits (Cont'd)

Changes in post-retirement benefit obligations are as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
At 1 January	**645,732**	621,121	**539,945**	531,064
Additions through business acquisition (Note 40)	**519,881**	–	**519,881**	–
Total expenses charged in the income statement	**102,459**	51,704	**89,467**	43,553
Payments	**(29,370)**	(27,093)	**(27,778)**	(26,067)
Others	**–**	–	**(1,350)**	(8,605)
At 31 December	**1,238,702**	645,732	**1,120,165**	539,945

The costs of post-retirement benefits are recognised under wages, salaries and benefits in the income statement as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Current service cost	**56,436**	20,849	**50,775**	17,497
Interest cost	**45,200**	29,857	**38,009**	25,058
Actuarial losses recognised	**823**	998	**683**	998
Total (Note 8)	**102,459**	51,704	**89,467**	43,553

Principal actuarial assumptions at the balance sheet date are as follows:

	Group and Company	
	2005	2004
Discount rate	**3.5%**	5.0%
Annual rate of increase of per capita benefit payment	**1.5%**	1.5%
Employees turnover rate	**3.0%**	3.0%

36. Staff Housing Benefits

(a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund at rates ranging from 1% to 15% (2004: 1% to 15%) of the specified salary amount of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. For the year ended 31 December 2005, the Group's contributions to the housing funds amounted to RMB102,472,000 (2004: RMB94,200,000) which has been charged to the income statement. The staff housing fund payable as at 31 December 2005 amounted to RMB136,510,000 (2004: RMB75,364,000) (Note 27). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Staff housing allowances

The Company also provides staff housing allowances to eligible employees who joined in the Group prior to 1998 according to the Group's staff housing allowance policy introduced in October 2003 (the "Staff Housing Allowance Policy").

Under the Staff Housing Allowance Policy, employees who have not been allocated with any housing quarters or who have not been allocated with a quarter above the minimum area as set out in the Staff Housing Allowance Policy, are entitled to a cash allowance based on the area of quarter entitled and the unit price as set out in the Staff Housing Allowance Policy. The total entitlement is principally vested over a period of 20 years. Upon an employee's resignation, his or her entitlement will cease and any unpaid entitlement related to past service up to the date of resignation will be paid. Upon the establishment of the Staff Housing Allowance Policy, employees are entitled to a portion of the total entitlement already accrued based on his or her past service period. Such entitlement would be paid over a period of 4 to 5 years. As at 31 December 2005, the present obligation of the provision for the employee's staff housing entitlement is RMB457,466,000 (2004: RMB369,675,000), of which RMB13,270,000 (2004: RMB93,427,000) is classified as current portion in ‘other payables and accrued expenses’.

For the year ended 31 December 2005, the staff housing benefit provided under the Staff Housing Allowance Policy amounted to RMB36,231,000 (2004: RMB29,253,000) which has been charged to the income statement.

37. Derivative Financial Instruments

	Group and Company			
	Assets		Liabilities	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December				
Interest rate swaps (a)	**71,260**	11,571	**19,821**	19,447
Forward foreign exchange contracts (b)	**2,469**	–	**17,808**	100,196
Fuel option contracts (c)	**50,193**	–	**22,985**	–
Total	**123,922**	11,571	**60,614**	119,643
Less: non-current portion				
Interest rate swaps	**(70,292)**	(11,571)	**(2,731)**	(19,447)
Forward foreign exchange contracts	**(594)**	–	**(10,380)**	(100,196)
Fuel option contracts	**–**	–	**(12,659)**	–
	(70,886)	(11,571)	**(25,770)**	(119,643)
Current portion	**53,036**	–	**34,844**	–

Notes:

(a) ***Interest rate swaps***

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(iii)). The interest rate swaps entered into by the Group are generally for swapping variable rates, usually reference to LIBOR, into fixed rates. The Group's interest rate swaps qualify for hedge accounting and are accounted for as cashflow hedge. As at 31 December 2005, the notional amount of the outstanding interest rate swap agreements was approximately US$661 million (2004: US$437 million). These agreements will expire between 2006 and 2016. For the year ended 31 December 2005, a net gain of RMB78,546,000 (2004: RMB29,700,000) arising from changes in the fair value of the interest rate swaps subsequent to initial recognition has been recognised directly in the hedging reserve (Note 32).

37. Derivative Financial Instruments

(b) *Forward foreign exchange contracts*

The Group uses currency forward contracts to reduce risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(vi)). These contracts are generally for selling of Japanese Yen and purchasing of U.S. dollars at fixed exchange rates. On 21 July 2005, the People's Bank of China revalued the RMB with reference to an undisclosed basket of currencies. Prior to the revaluation, the Group's currency forward contracts qualified for hedge accounting and were accounted for as cashflow hedge of firm commitments. After the revaluation, the Group discontinued the hedge relationship and did not apply hedge accounting on forward foreign exchange contracts from 1 July 2005. As at 31 December 2005, the notional amount of the outstanding currency forward contracts was approximately US$92 million (2004: US$226 million), which will expire between 2006 and 2010. For the year ended 31 December 2005, a net gain of RMB82,144,000 (2004: a net loss of RMB46,149,000) arising from changes in the fair value of these foreign currency forwards between the initial recognition up to 30 June 2005 was recognised directly in the hedging reserve (Note 32). The change in the fair value between 1 July 2005 and 31 December 2005 of RMB13,299,000 has been recognised in the income statement.

(c) *Fuel option contracts*

The Group uses fuel option contracts to reduce the risk of changes in market oil/petroleum prices in connection with aircraft fuel costs. As at 31 December 2005, the Group had outstanding fuel option contracts to buy approximately 2,600,000 barrels of crude oil at prices which ranging from US$ 41 to US$ 70 per barrel and sell approximately 6,840,000 barrels of crude oil at prices which ranging from US$ 33.5 to US$ 87.25 per barrel, all of which will expire between 2006 and 2007. Management did not designate these fuel option contracts for hedge accounting and changes in fair values have been recognised directly in the income statement.

38. Notes to consolidated cash flow statement

(a) Cash generated from operations

	2005 RMB'000	Restated 2004 RMB'000
(Loss)/profit before income tax	**(577,432)**	585,972
Adjustments for:		
Depreciation of property, plant and equipment	**3,911,722**	3,076,585
Gains on disposals of property, plant and equipment	**(8,073)**	(47,819)
Share of results in associates	**9,030**	50,524
Share of results in jointly controlled entities	**4,300**	(45,268)
Amortisation of lease prepayments	**25,219**	18,414
Amortisation of goodwill and negative goodwill	**–**	2,202
Net foreign exchange (gains)/loss	**(414,640)**	32,207
Gains on disposals of financial assets held for trading	**–**	(5,235)
Fair value gains on financial assets at fair value through profit or loss	**(30,877)**	(8,839)
Consumption of flight equipment spare parts	**239,134**	139,711
(Reversal of allowance)/allowance for obsolescence of flight equipment spare parts	**(13,930)**	73,406
Provision for impairment of trade and other receivables	**25,325**	24,250
Provision for post-retirement benefits	**102,459**	51,704
Provision for staff housing allowance	**36,231**	29,253
Provision for aircraft overhaul expenses	**64,700**	75,897
Interest income	**(128,700)**	(129,020)
Interest expenses	**1,100,357**	868,339
Operating profit before working capital changes	**4,344,825**	4,792,283
Changes in working capital		
Flight equipment spare parts	**(294,969)**	(110,725)
Trade receivables	**(112,027)**	(136,995)
Amount due from related companies	**(83,459)**	(122,253)
Prepayments, deposits and other receivables	**(306,283)**	(361,345)
Sales in advance of carriage	**101,490**	(206,496)
Trade payables and notes payables	**821,222**	509,638
Amount due to related companies	**156,062**	138,968
Other payables and accrued expenses	**(1,030,806)**	(120,900)
Other long-term liabilities	**(67,764)**	8,344
Provision for aircraft overhaul expenses	**(110,832)**	(91,321)
Post-retirement benefit obligations	**(29,370)**	(27,093)
Staff housing allowances	**(18,306)**	(29,253)
	(975,042)	(549,431)
Cash generated from operations	**3,369,783**	4,242,852

(b) Non-cash transaction

Investing activities not affecting cash		
Injection of land use right from minority shareholder of a subsidiary	**63,063**	–
Capital contribution to a jointly controlled entity in form of property, plant and equipment	**51,872**	–
Utilisation of rebates from aircraft acquisition for purchases of flight equipment spare parts	**–**	98,921
Financing activities not affecting cash		
Finance lease obligations incurred for acquisition of aircraft	**991,640**	3,525,570

39. Commitments

(a) Capital commitments

The Group and the Company had the following capital commitments:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
– Aircraft, engines and flight equipment	**47,259,446**	8,791,472	**44,408,107**	8,791,472
– Other property, plant and equipment	**96,827**	129,440	**70,170**	98,360
– Acquisition of a subsidiary (Note 44)	**390,000**	308,134	**390,000**	308,134
	47,746,273	9,229,046	**44,868,277**	9,197,966
Authorised but not contracted for:				
– Aircraft, engines and flight equipment	**723,000**	3,533,000	**–**	1,900,000
– Others property, plant and equipment	**13,424,055**	2,381,710	**13,281,864**	2,117,727
	14,147,055	5,914,710	**13,281,864**	4,017,727
	61,893,328	15,143,756	**58,150,141**	13,215,693

Contracted expenditures for the above aircraft and flight equipment, including deposits prior to delivery, subject to future inflation increases built in the contracts and any discounts available upon delivery of the aircraft, if any, were expected to be paid as follows:

	Group	Company
	2005	2005
	RMB'000	RMB'000
2006	**9,006,906**	**7,301,334**
2007	**12,703,578**	**11,557,811**
2008	**13,523,589**	**13,523,589**
2009	**6,256,592**	**6,256,592**
2010	**5,768,781**	**5,768,781**
	47,259,446	**44,408,107**

39. Commitments (Cont'd)

(b) Operating lease commitments

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Aircraft, engines and flight equipment				
Within one year	**1,633,301**	1,024,857	**1,444,458**	831,187
In the second year	**1,550,209**	1,095,792	**1,361,362**	902,122
In the third to fifth year inclusive	**4,075,691**	3,094,495	**3,632,279**	2,397,661
After the fifth year	**2,015,670**	550,310	**2,015,670**	550,310
	9,274,871	5,765,454	**8,453,769**	4,681,280
Land and buildings				
Within one year	**68,739**	19,287	**67,799**	19,207
In the second year	**60,330**	14,874	**59,190**	14,794
In the third to fifth year inclusive	**44,951**	25,401	**44,463**	25,379
After the fifth year	**2,846**	22,139	**2,846**	22,139
	176,866	81,701	**174,298**	81,519
	9,451,737	5,847,155	**8,628,067**	4,762,799

40. Business Acquisitions

On 30 June 2005, pursuant to an acquisition agreement entered into between the Company, CEA Holding, China Eastern Air Northwest Company ("CEA Northwest"; a wholly owned subsidiary of CEA Holding) and China Eastern Air Yunnan Company ("CEA Yunnan"; a wholly owned subsidiary of CEA Holding), and upon approval by the Company's shareholders in a General Meeting, the Company acquired certain assets and liabilities relating to the aviation business of CEA Northwest and CEA Yunnan. The aggregate acquisition price paid and payable by the Company is RMB639,749,000.

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 acquired businesses contributed revenues of RMB4,269,745,000 and profit after taxation of RMB23,552,000 to the Group for the period from 1 July 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the acquired businesses would have contributed revenues of RMB7,740,744,000, and net loss of RMB510,870,000 to the Group for the year ended 31 December 2005.

40. Business Acquisitions (Cont'd)

Details of net assets acquired and related goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash	639,749
– Direct costs relating to the acquisition	29,968
Total purchase consideration	669,717
Fair value of net assets acquired – shown as below	(60,582)
Goodwill (Note 18)	609,135

40. Business Acquisitions (Cont'd)

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

	Fair value of net asset acquired RMB'000
Property, plant and equipment	7,302,833
Construction in progress	13,577
Lease prepayments	74,339
Investments in associates	5,564
Other long-term assets	777,644
Deferred tax assets	93,017
Flight equipment spare parts	385,971
Trade receivables	124,645
Prepayment, deposits and other receivables	74,993
Cash and cash equivalents	629,013
Trade payables and notes payables	(263,748)
Sales in advance of carriage	(1,702)
Other payables and accrued expenses	(2,600,738)
Borrowings, current portion	(2,163,898)
Borrowings, long-term portion	(814,220)
Taxation	(26,319)
Derivative Liabilities	(16,151)
Obligations under finance leases	(2,515,423)
Provision for aircraft overhaul expenses	(196,122)
Post retirement benefit obligations	(519,881)
Staff housing allowance	(150,023)
Other long-term liabilities	(152,789)
Net assets acquired	60,582
Purchase consideration settled in cash	669,717
Cash and cash equivalents in businesses acquired	(629,013)
Cash outflow on business acquisition	40,704

See Note 44 for details regarding a business acquisition completed after the balance sheet but before the approval of these financial statements.

41. Related Party Transactions

The Group is controlled by CEA Holding, which owns approximately 61.64% of the Company's shares as at 31 December 2005. The aviation industry in the PRC is administrated by the CAAC. CEA Holding and the Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as "the state-controlled enterprises").

(a) Related party transactions

The Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees of state-controlled enterprises while such employees are on corporate business as well as their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all of the Group's 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 on these retail transactions have been adequately made.

41. Related Party Transactions (Cont'd)

(a) Related party transactions (Cont'd)

The other related party transactions are:

Nature of transaction	Related party	Income/ (expenses or payments) 2005 RMB'000	2004 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:			
Interest income on deposits at an average rate of 0.72% per annum (2004: 0.72% per annum)	EAGF**	**5,341**	4,897
Interest expense on loans at rate of 4.50% per annum (2004: 4.54% per annum)	EAGF**	**(14,855)**	(1,150)
Commission income on carriage service provided by other airlines with air tickets sold by the Group, at rates ranging from 3% to 9% of the value of tickets sold	CEA Northwest*	**39,247**	93,062
	CEA Yunnan*	**38,817**	81,517
	CEA Wuhan ***	**46,412**	32,396
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold	CEA Northwest*	**(2,374)**	(14,181)
	CEA Yunnan*	**(6,238)**	(22,494)
	CEA Wuhan***	**(9,550)**	(32,396)
	SDATC**	**(7,402)**	(8,228)
	China Eastern Air Development (HK) Co., Ltd	**(34,225)**	–
	Shanghai Tourism (HK) Co., Ltd	**(21,815)**	(13,201)

41. Related Party Transactions (Cont'd)

(a) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (expenses or payments) 2005 RMB'000	2004 RMB'000
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment	EAIEC**	**(40,590)**	(34,270)
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited	**(124,677)**	(86,311)
Repairs and maintenance expense for ground service facilities	CEA Northwest *	**–**	(9,535)
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes	**(63,972)**	(25,445)
	STA	**(104,853)**	–
	EAIEC**	**(6,969)**	–
Lease rental income from operating lease of aircraft	CEA Wuhan Airlines***	**41,327**	38,239
Lease rental charges for operating lease of aircraft	CEA Northwest*	**–**	(199,188)
	CEA Yunnan*	**–**	(86,341)

41. Related Party Transactions (Cont'd)

(a) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (expenses or payments) 2005 RMB'000	2004 RMB'000
Supply of food and beverages	Eastern Air (Shantou) Economic Development Co., Ltd.	**(61,701)**	(57,623)
	CEACI	**(231,759)**	(188,406)
	Shanghai Eastern Air Catering Co., Ltd	**(184,306)**	(165,643)
	Qingdao Eastern Air Catering Investment Co.,Ltd.	**(15,055)**	(14,291)
	Xian Eastern Air Catering Investment Co.,Ltd.	**(15,079)**	(50)
	Yunnan Eastern Air Catering Investment Co.,Ltd.	**(17,451)**	(244)
Advertising expense	CAASC	**(8,611)**	(5,629)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(8,987)**	(14,850)
Rental expenses	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(4,909)**	(5,582)

* The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from 30 June 2005. Transactions with CEA Northwest and CEA Yunnan up to 30 June 2005 are regarded as related party transactions.

** EAGF is also a 25% owned associate of the Group; SDATC and EAIEC are both a 45% owned associates of the Group.

*** CEA Wuhan was a 40% owned associate of the Group for the year ended 31 December 2005. On 8 December 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after 31 December 2005.

41. Related Party Transactions (Cont'd)

(a) Related party transactions (Cont'd)

Nature of transaction	Related party	Income/ (expenses or payments) 2005 RMB'000	2004 RMB'000
With CAAC and its affiliates:			
Civil aviation infrastructure levies paid to CAAC	CAAC	**466,191**	251,185
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	**201,653**	154,086
With other state-controlled enterprises:			
Take-off and landing fees charges	State-controlled airports	**2,461,858**	1,579,115
Purchase of aircraft fuel	State-controlled fuel suppliers	**4,571,155**	3,447,336
Interest income on deposits at an average rates of 0.72% per annum (2004: 0.72% per annum)	State-controlled banks	**30,948**	15,025
Interest expense on loans at an average rate of 4.54% per annum (2004: 4.54% per annum)	State-controlled banks	**790,478**	588,842
Commission expense on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of the value of tickets sold	other PRC airlines	**153,528**	78,232
Supply of food and beverages	other state-control enterprises	**368,120**	236,102

41. Related Party Transactions (Cont'd)

(b) Balances with related companies

(i) Amounts due from related companies

Company	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
China Eastern Air Development (HK) Co., Ltd	**66,457**	–	**66,457**	–
CEA Holding	**57,773**	23,835	**57,773**	23,835
SDATC**	**43,223**	39,485	**43,223**	39,485
Shanghai Tourism (HK) Co., Ltd	**23,177**	–	**23,177**	–
CEA Wuhan ***	**3,541**	–	**3,541**	
EAIEC**	**4,956**	–	**2,357**	–
STA	**4,927**	–	**4,927**	–
CEA Yunnan*	**–**	52,161	**–**	52,161
Other related companies	**1,658**	6,772	**1,658**	520
Total	**205,712**	122,253	**203,113**	116,001

* The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from 30 June 2005. Transactions with CEA Northwest and CEA Yunnan up to 30 June 2005 are regarded as related party transactions.

** EAGF is a 25% owned associate of the Group; SDATC is a 45% owned associate of the Group; EAIEC is a 45% owned associate of the Group.

*** CEA Wuhan was a 40% owned associate of the Group for the year ended 31 December 2005. On 8 December 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after 31 December 2005.

Except for amount due from CEA Holding, which is reimbursement in nature, all other amounts due from related companies are trade in nature, interest free and payable within normal credit terms given to trade customers.

41. Related Party Transactions (Cont'd)

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

(ii) Amounts due to related companies

	Group		Company	
Company	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
EAIEC**	**(90,123)**	(47,093)	**(8,773)**	(72,341)
EAGF**	**(4,328)**	–	**(4,328)**	–
CEA Wuhan ***	**(80,407)**	(19,063)	**(80,407)**	(19,063)
STA	**(8,491)**	–	**–**	–
CEA Holding	**(94,216)**	–	**(94,216)**	–
CEA Northwest*	**–**	(69,380)	**–**	(69,380)
Other related companies	**(17,465)**	(3,432)	**(17,465)**	(3,432)
Total	**(295,030)**	(138,968)	**(205,189)**	(164,216)

* The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from 30 June 2005. Transactions with CEA Northwest and CEA Yunnan up to 30 June 2005 are regarded as related party transactions.

** EAGF is a 25% owned associate of the Group; SDATC is a 45% owned associate of the Group; EAIEC is a 45% owned associate of the Group.

*** CEA Wuhan was a 40% owned associate of the Group for the year ended 31 December 2005. On 8 December 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after 31 December 2005

Except for amounts due to EAGF and CEA Holding, which is reimbursement in nature, all other amounts due to related companies are trade in nature, interest free and payable within normal credit terms given by trade creditors.

41. Related Party Transactions (Cont'd)

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

(iii) Short-term deposits and short-term loans with an associate

Company	Average interest rate 2005	2004	Group 2005 RMB'000	2004 RMB'000	Company 2005 RMB'000	2004 RMB'000
Short-term deposits (included in Prepayments, Deposits and other Receivables)						
"EAGF"	**0.7%**	0.7%	**475,078**	413,870	**31,238**	43,207
Short-term loans (included in Borrowings)						
"EAGF"*	**4.5%**	4.5%	**213,702**	140,765	**180,702**	132,765

* EAGF is a 25% owned associate of the Group;

(iv) State-controlled banks and other financial institutions

Company	Average interest rate 2005	2004	Group 2005 RMB'000	2004 RMB'000	Company 2005 RMB'000	2004 RMB'000
Bank deposits (included in cash and cash equivalent)	**0.7%**	0.7%	**1,196,963**	1,814,207	**755,225**	687,401
Long-term bank borrowings	**4.6%**	3.2%	**10,438,483**	10,736,260	**10,066,664**	10,705,637

(c) Guarantees by holding company

As at 31 December 2005, long-term bank loans of the Group/the Company with an aggregate amount of RMB2,122,600,000 (2004: RMB2,122,600,000) were guaranteed by CEA Holding (Note 30).

(d) Key management compensation

	2005 RMB'000	2004 RMB'000
Salaries, bonus, allowances and benefits	**1,825**	1,813

42. Ultimate Holding Company

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

43. Contingent liabilities

In 2005, the Company received a legal claim in the United States of America for unspecified damages by family members of certain victims in the air crash of an aircraft of CEA Yunnan occurred on 21 November 2004 in Baotou, Neimonggol, the PRC.

Management has engaged legal representatives to vigorously contest the proceedings. The proceedings is still in an early stage and in the opinion of the Directors, based on professional advice, it is unlikely that there will be any significant adverse effect to the financial position of the Group.

44. Post Balance Sheet Event

On 8 December 2005, the Company entered into agreements with each of Wuhan Municipality State-owned Assets Supervision and Administration Commission ("Wuhan SASAC") and Shanghai Junyao Aviation Investment Company Limited ("Shanghai Junyao") to acquire (i) a 38% equity interest in CEA Wuhan from Wuhan SASAC for a consideration of RMB278,000,000, and (ii) a 18% equity interest in CEA Wuhan from Shanghai Junyao for a consideration of RMB140,000,000, totaling RMB418,000,000, respectively. Based on an independent valuation conducted on 31 December 2005, a 56% share of the fair value of the net assets acquired amounted to approximately RMB214,159,000. The acquisitions were conditional upon approvals of the agreements from relevant governmental and regulatory authorities. On 4 January 2006, all the necessary approvals were obtained and the acquisitions were completed.

Pursuant to the acquisition agreement between the Company and Wuhan SASAC, after receipt of the purchase consideration from the Company, Wuhan SASAC would settle RMB 152,000,000 for an amount it owed to CEA Wuhan. On 23 March 2006, Wuhan SASAC paid the aforesaid amount to CEA Wuhan.