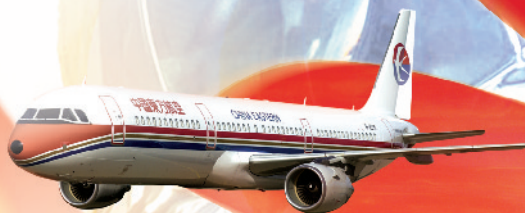


INTERIM REPORT
2006

東方



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

The Board of Directors of China Eastern Airlines Corporation Limited (the “Company” or “CEA”) hereby presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June 2006 (which were approved by the Board of Directors of the Company on 28th August 2006), with comparative figures for the corresponding financial information in 2005.

The condensed consolidated interim financial statements of the Group for the six months ended 30th June 2006 are unaudited and do not necessarily indicate the annual or future results. The Audit Committee of the Company has reviewed the accounting principles and methods of computation adopted by the Group with the management of the Company and had discussions with the Board of Directors of the Company regarding internal controls and financial reporting issues, including a review of the unaudited condensed consolidated interim financial statements for the six months ended 30th June 2006. The Audit Committee of the Company has no disagreement regarding the accounting principles and methods of computation adopted by the Group.

INTERIM FINANCIAL INFORMATION

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2006

	Note	(Unaudited)			2006 vs 2005 Increase/ (decrease) %
		Six months ended 30th June			
		2006 RMB'000	Restated 2005 RMB'000	2006 US\$'000	
			(note 3)	(note 20)	
Revenues	4	16,961,037	10,627,085	2,121,296	59.6
Other operating income	5	157,883	127,981	19,746	23.4
Operating expenses					
Commissions		(591,188)	(489,638)	(73,939)	20.7
Aircraft fuel		(6,176,056)	(3,324,323)	(772,432)	85.8
Take-off and landing charges		(2,433,116)	(1,561,415)	(304,307)	55.8
Ground services and other charges		(62,647)	(57,707)	(7,835)	8.6
Civil aviation infrastructure levies		(332,405)	(169,565)	(41,573)	96.0
Food and beverages		(584,139)	(383,240)	(73,058)	52.4
Wages, salaries and benefits		(1,561,031)	(747,912)	(195,236)	108.7
Aircraft maintenance		(1,259,041)	(528,187)	(157,467)	138.4
Aircraft depreciation and operating lease rentals		(3,360,457)	(2,078,274)	(420,288)	61.7
Other depreciation, amortisation and operating lease rentals		(366,735)	(268,699)	(45,867)	36.5
Ticket reservation fee		(181,394)	(87,145)	(22,687)	108.2
Insurance costs		(60,428)	(42,678)	(7,558)	41.6
Office, administrative and other expenses		(1,414,289)	(1,127,462)	(176,883)	25.4
Total operating expenses		(18,382,926)	(10,866,245)	(2,299,130)	69.2

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30th June 2006

	Note	(Unaudited)			2006 vs 2005 Increase/ (decrease) %
		Six months ended 30th June			
		2006 RMB'000	Restated 2005 RMB'000	2006 US\$'000	
			(note 3)	(note 20)	
Operating loss		(1,264,006)	(111,179)	(158,088)	1,036.9
Interest income		62,710	62,813	7,843	(0.2)
Finance costs		(671,997)	(512,444)	(84,046)	31.1
Share of results of associates		4,451	(4,137)	557	207.6
Share of results of jointly controlled entities		4,394	(8,550)	550	151.4
Loss before income tax		(1,864,448)	(573,497)	(233,184)	225.1
Taxation	6	20,660	(11,866)	2,584	(274.1)
Loss for the period		(1,843,788)	(585,363)	(230,600)	215.0
Attributable to:					
Equity holders of the Company		(1,715,678)	(580,567)	(214,578)	195.5
Minority interests		(128,110)	(4,796)	(16,022)	2,571.2
		(1,843,788)	(585,363)	(230,600)	215.0
Loss per share for loss attributable to equity holders of the Company during the period – basic and diluted	7	(RMB0.353)	(RMB0.119)	(US\$0.044)	

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2006

		(Unaudited) 30th June 2006	(Audited) 31st December 2005	(Unaudited) 30th June 2006
	Note	RMB'000	RMB'000	US\$'000
<i>(note 20)</i>				
Non-current assets				
Intangible assets		993,143	688,311	124,211
Property, plant and equipment	10	43,117,873	38,588,400	5,392,701
Lease prepayments		1,057,169	972,771	132,219
Advance payments on acquisition of aircraft	11	8,446,409	9,072,673	1,056,382
Investments in associates		584,716	629,746	73,130
Investments in jointly controlled entities		105,074	100,520	13,141
Available-for-sale financial assets		40,411	40,802	5,054
Other long-term assets		2,275,976	2,705,558	284,654
Deferred tax assets		452,872	434,839	56,640
Derivative assets		219,209	70,886	27,416
		57,292,852	53,304,506	7,165,548
Current assets				
Flight equipment spare parts		1,133,816	978,922	141,805
Trade receivables	12	2,164,913	1,918,409	270,763
Amounts due from related companies		144,268	205,712	18,043
Prepayments, deposits and other receivables		1,734,915	997,271	216,984
Cash and cash equivalents		1,861,033	1,864,001	232,757
Derivative assets		60,063	53,036	7,512
		7,099,008	6,017,351	887,864
Current liabilities				
Sales in advance of carriage		1,051,966	823,149	131,568
Trade payables and notes payable	13	5,191,093	3,394,898	649,244
Amounts due to related companies		378,108	295,030	47,290
Other payables and accrued expenses		6,619,416	6,021,481	827,882
Current portion of obligations under finance leases	14	2,720,102	2,428,037	340,200
Current portion of borrowings	15	18,044,696	18,554,630	2,256,828
Tax payable		59,672	47,259	7,463
Current portion of provision for aircraft overhaul expenses		12,000	15,589	1,501
Derivative liabilities		16,017	34,844	2,003
		34,093,070	31,614,917	4,263,979
Net current liabilities		(26,994,062)	(25,597,566)	(3,376,115)
Total assets less current liabilities		30,298,790	27,706,940	3,789,433

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30th June 2006

		(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000	(Unaudited) 30th June 2006 US\$'000
	Note			
				(note 20)
Non-current liabilities				
Obligations under finance leases	14	11,721,524	8,180,460	1,465,997
Borrowings	15	10,315,940	9,790,116	1,290,202
Other long-term liabilities		319,904	155,229	40,010
Provision for aircraft overhaul expenses		438,859	388,410	54,888
Deferred tax liabilities		614,339	601,340	76,835
Post-retirement benefit obligations		1,252,231	1,202,877	156,615
Long-term portion of staff housing allowances		452,358	444,196	56,576
Derivative liabilities		72,624	25,770	9,083
		25,187,779	20,788,398	3,150,206
Net assets		5,111,011	6,918,542	639,227
Equity				
Capital and reserves attributable to the equity holders of the Company				
Share capital	16	4,866,950	4,866,950	608,704
Reserves		(415,812)	1,229,115	(52,006)
		4,451,138	6,096,065	556,698
Minority interests		659,873	822,477	82,529
Total equity		5,111,011	6,918,542	639,227

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

	Attributable to equity holders of the Company				
	Share capital	Other reserves	(Accumulated	Minority interests	Total equity
			losses)/ profits		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Six months ended 30th June 2006 (Unaudited)					
Balances as at 1st January 2006	4,866,950	1,229,654	(539)	822,477	6,918,542
Unrealised gains on cash flow hedges	-	46,935	-	-	46,935
Fair value changes arising from business combinations	-	23,816	-	-	23,816
Net gains not recognised in the income statement	-	70,751	-	-	70,751
Loss for the period	-	-	(1,715,678)	(128,110)	(1,843,788)
Dividends paid to minority investors of subsidiaries	-	-	-	(44,550)	(44,550)
Additions through business combinations	-	-	-	10,056	10,056
Balances as at 30th June 2006	4,866,950	1,300,405	(1,716,217)	659,873	5,111,011
Six months ended 30th June 2005 (Unaudited)					
Balances as at 1st January 2005	4,866,950	1,066,396	590,778	820,835	7,344,959
Net gains not recognised in the income statement					
- unrealised gains on cash flow hedges	-	75,057	-	-	75,057
Loss for the period	-	-	(580,567)	(4,796)	(585,363)
Dividend relating to 2004	-	-	(97,339)	-	(97,339)
Dividends paid to minority investors of subsidiaries	-	-	-	(90,000)	(90,000)
Balances as at 30th June 2005	4,866,950	1,141,453	(87,128)	726,039	6,647,314

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2006

	(Unaudited)		
	Six months ended 30th June		
	2006 RMB'000	2005 RMB'000	2006 US\$'000
			<i>(note 20)</i>
Net cash generated from operating activities	195,048	727,590	24,395
Net cash used in investing activities	(70,703)	(4,173,129)	(8,843)
Net cash (used in)/generated from financing activities	(126,161)	4,054,520	(15,779)
Net (decrease)/increase in cash and cash equivalents	(1,816)	608,981	(227)
Cash and cash equivalents at 1st January	1,864,001	2,114,447	233,128
Exchange adjustments	(1,152)	(17,772)	(144)
Cash and cash equivalents at 30th June	1,861,033	2,705,656	232,757

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 14th April 1995. The address of its registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (hereinafter collectively referred to as 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 six months ended 30th June 2006, the Company acquired additional equity interests of 56% in China Eastern Airlines Wuhan Co., Ltd (“CEA Wuhan”) which became a subsidiary of the Company. Further details of the acquisition are set out in Note 19 to the condensed consolidated interim financial statements.

2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. This basis of accounting differs in certain material respects from that used in the preparation of the Group’s interim financial statements in the PRC, which are prepared in accordance with the accounting and other relevant regulations applicable in the PRC (“PRC Accounting Regulations”). Differences between PRC Accounting Regulations and IFRS on the unaudited consolidated loss attributable to equity holders of the Company for the six months ended 30th June 2006 and on the unaudited condensed consolidated net assets at 30th June 2006 are set out in Section C of the interim report. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005, as described in the annual financial statements for the year ended 31st December 2005, except that the Group adopted all the new standards, amendments to standards and interpretations which are effective for the financial year commencing on 1st January 2006. The adoption of these new standards, amendments to standards and interpretations did not have significant financial impact to the results of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

3. Comparatives

The presentation of the condensed consolidated income statement for the six months ended 30th June 2005 was revised to bring it in line with the annual financial statements for the year ended 31st December 2005. Certain comparative figures have been reclassified or restated to conform with the presentation in the current period, particularly IAS 16 (amended 2004) "Property, Plant and Equipment" which replaces IAS 16 (revised 1998). For the year ended 31st December 2005, the Group adopted the revised IAS 16 and has amended its accounting policy to capitalise overhaul costs of owned and finance leased aircraft and engines as separate components of property, plant and equipment, which are subject to depreciation over the appropriate maintenance cycles. In prior years, the costs of overhaul for owned and finance leased aircraft and engines were expensed in the income statement when incurred.

The effect of the adoption of IAS 16 (amended 2004) on the income statement for the six months ended 30th June 2005 is set out below:

	RMB'000
Decrease in aircraft maintenance	(242,931)
Increase in aircraft depreciation and other lease rentals	375,541
Decrease in taxation	(22,553)
Increase in loss for the period	<u>110,057</u>

4. Revenues and segment information

(a) Revenues

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. Revenues and segment information (Continued)

(a) Revenues (Continued)

(Unaudited)	Six months ended 30th June 2006				
	Domestic*	Hong Kong	Japan	Other countries*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Traffic revenues					
- Passenger	8,621,734	1,187,711	1,314,230	2,627,424	13,751,099
- Cargo and mail	274,397	337,097	376,380	1,515,064	2,502,938
	8,896,131	1,524,808	1,690,610	4,142,488	16,254,037
Commission income	26,299	6,904	7,654	18,755	59,612
Ground services income	336,123	-	-	-	336,123
Cargo handling income	135,058	-	-	-	135,058
Other operating revenues	176,207	-	-	-	176,207
	9,569,818	1,531,712	1,698,264	4,161,243	16,961,037
Other operating income	123,926	5,641	3,986	24,330	157,883
Segment results -					
(loss)/profit	570,887	59,377	548,303	(949,276)	229,291
Unallocated expenses					(1,493,297)
Operating loss					(1,264,006)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. Revenues and segment information (Continued)

(a) Revenues (Continued)

(Unaudited)	Six months ended 30th June 2005				
	Domestic*	Hong Kong	Japan	Other countries*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Traffic revenues					
– Passenger	3,659,559	1,134,546	674,601	2,097,054	7,565,760
– Cargo and mail	111,628	295,613	320,658	1,532,742	2,260,641
	3,771,187	1,430,159	995,259	3,629,796	9,826,401
Commission income	106,097	8,008	5,573	20,325	140,003
Ground services income	330,878	–	–	–	330,878
Cargo handling income	107,777	–	–	–	107,777
Rental income from operating sublease of aircraft	36,693	–	–	–	36,693
Other operating revenues	185,333	–	–	–	185,333
	4,537,965	1,438,167	1,000,832	3,650,121	10,627,085
Other operating income	110,617	3,804	1,316	12,244	127,981
Segment results - profit	189,526	83,046	393,533	273,321	939,426
Unallocated expenses					(1,050,605)
Operating loss					(111,179)

The PRC, excluding Hong Kong.

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

In the prior year's financial statements, the Group's corporate general and administrative expenses (the "Corporate Expenses") were allocated to respective segments. In order to better reflect the impact of recent business acquisitions and a rapid increase in business volumes, Corporate Expenses have not been allocated on a geographical basis because the basis of such an allocation is subjective. Accordingly, the analysis of segment results for both 2006 and 2005 have been presented on this basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. Revenues and segment information (Continued)

(a) Revenues (Continued)

To conform with the current period's presentation, (i) the segment expenses of domestic, Hong Kong, Japan and other countries for the six months ended 30th June 2005 were decreased by RMB291,602,000, RMB106,138,000, RMB58,925,000 and RMB593,940,000 respectively, resulting in an increase in the respective segment results by the same amount; and (ii) the unallocated expenses were increased by HK\$1,050,605,000.

(b) 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.

(c) Secondary reporting format by geographical segment

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

5. Other operating income

	(Unaudited) six months ended 30th June	
	2006 RMB'000	Restated 2005 RMB'000
		<i>(note 3)</i>
Government subsidies <i>(note)</i>	70,091	63,039
Net fair value gains on financial instruments		
- forward foreign exchange contracts	13,130	26,570
- fuel hedging income	74,662	38,372
	157,883	127,981

Note:

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

6. Taxation

Taxation is charged to the consolidated income statement as follows:

	(Unaudited) six months ended 30th June	
	2006 RMB'000	Restated 2005 RMB'000
		<i>(note 3)</i>
Provision for PRC income tax - current period	21,877	26,857
Deferred taxation	(42,537)	(14,991)
	(20,660)	11,866

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

6. Taxation (Continued)

Note:

The standard PRC income tax rate is 33% (2005: 33%). Except for certain subsidiaries, the Group is entitled to a preferential income tax rate of 15% (2005: 15%) pursuant to certain circulars issued by the relevant local tax authorities. In 2005, one of the Group's subsidiaries, Shanghai Eastern Logistics Co., Ltd, was exempted from enterprise income tax pursuant to a circular issued by the local tax authority.

The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30th June 2006 as there exists double tax relief between the PRC and the corresponding jurisdictions (including Hong Kong) (2005: Nil).

7. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to equity holders of the Company of RMB1,715,678,000 (2005: RMB580,567,000, as restated) and 4,866,950,000 (2005: 4,866,950,000) shares in issue during the period. The Company has no potentially dilutive ordinary shares.

8. Dividend

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2006 (2005: Nil).

9. Profit appropriation

No appropriations from retained profits were made to the statutory reserves during the six months ended 30th June 2006. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

10. Property, plant and equipment

(Unaudited)	Six months ended 30th June 2006		
	Aircraft and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1st January 2006	34,740,125	3,848,275	38,588,400
Transfers from advance payments on acquisition of aircraft (<i>note 11</i>)	3,631,552	–	3,631,552
Additions through business combinations	383,954	293,511	677,465
Other additions	2,435,760	284,296	2,720,056
Depreciation charged for the period	(2,105,296)	(235,442)	(2,340,738)
Disposals	(140,963)	(17,899)	(158,862)
Carrying amounts at 30th June 2006	38,945,132	4,172,741	43,117,873

(Unaudited)	Six months ended 30th June 2005		
Carrying amounts at 1st January 2005	26,692,256	3,240,284	29,932,540
Transfers from advance payments on acquisition of aircraft (<i>note 11</i>)	509,229	–	509,229
Additions through business combinations	6,937,182	379,228	7,316,410
Other additions	1,110,681	269,629	1,380,310
Depreciation charged for the period	(1,406,965)	(180,940)	(1,587,905)
Disposals	(65,600)	(63,435)	(129,035)
Carrying amounts at 30th June 2005	33,776,783	3,644,766	37,421,549

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

11. Advance payments on acquisition of aircraft

	(Unaudited)	
	Six months ended 30th June	
	2006	2005
	RMB'000	RMB'000
Carrying amounts at 1st January	9,072,673	2,678,603
Additions	3,005,288	4,393,927
Transfers to aircraft and flight equipment (<i>note 10</i>)	(3,631,552)	(509,229)
Carrying amounts at 30th June	8,446,409	6,563,301

12. Trade receivables

The credit terms given to trade customers are determined on individual basis, with credit periods within three months.

As at 30th June 2006, the aging of trade receivables was as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2006	2005
	RMB'000	RMB'000
Less than 31 days	1,212,328	1,580,082
31 to 60 days	294,564	134,095
61 to 90 days	432,077	122,377
91 to 180 days	32,059	34,097
181 to 365 days	160,788	13,302
Over 365 days	144,227	127,466
	2,276,043	2,011,419
Less: Provision for impairment of receivables	(111,130)	(93,010)
Trade receivables, net	2,164,913	1,918,409

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

13. Trade payables and notes payable

The aging of trade payables and notes payable was as follows:

	(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000
Less than 31 days	2,145,608	1,697,293
31 to 60 days	642,511	397,187
61 to 90 days	848,493	195,869
91 to 180 days	1,383,501	846,775
181 to 365 days	110,541	212,025
Over 365 days	60,439	45,749
	5,191,093	3,394,898

As at 30th June 2006, all notes payable totaling RMB3,168,468,000 were unsecured, repayable within six months and interest bearing at prevailing market interest rates.

14. Obligations under finance leases

Movements in obligations under finance leases were as follows:

	(Unaudited) Six months ended 30th June	
	2006 RMB'000	2005 RMB'000
Carrying amounts as at 1st January	10,608,497	8,662,286
Additions through business combinations	101,007	2,515,423
Inception of finance lease obligations	5,166,858	906,802
Repayments	(1,434,736)	(735,031)
Carrying amounts as at 30th June	14,441,626	11,349,480
Less: Current portion	(2,720,102)	(2,259,028)
Long-term portion	11,721,524	9,090,452

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

15. Borrowings

Movements in borrowings were as follows:

	(Unaudited)	
	Six months ended 30th June	
	2006	2005
	RMB'000	RMB'000
Carrying amounts as at 1st January	28,344,746	16,925,179
Additions through business combinations	220,000	2,978,118
Proceeds from drawn down of borrowings	11,206,720	8,738,792
Repayments	(11,410,830)	(5,203,134)
Carrying amounts as at 30th June	28,360,636	23,438,955
Less: Current portion	(18,044,696)	(15,433,288)
Long-term portion	10,315,940	8,005,667

16. Share capital

	(Unaudited)	(Audited)
	30th June	31st December
	2006	2005
	RMB'000	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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

17. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000
Authorised and contracted for:		
– Aircraft, engines and flight equipment	72,657,890	47,259,446
– Other property, plant and equipment	501,176	96,827
– Acquisition of a subsidiary	–	390,000
	73,159,066	47,746,273
Authorised but not contracted for:		
– Aircraft, engines and flight equipment	723,000	723,000
– Other property, plant and equipment	13,055,323	13,424,055
	13,778,323	14,147,055
	86,937,389	61,893,328

The above commitments primarily comprise amounts relating to the acquisition of five A-319, thirty-four A-320, eleven A-321, fifteen A-330, twenty B-737, two B-747, fifteen B-787 and five ERJ-145 aircraft which will be delivered between 2006 to 2010.

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

17. Commitments (Continued)

(b) Operating lease commitments (Continued)

	(Unaudited) 30th June 2006		(Audited) 31st December 2005	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Within one year	2,006,982	124,606	1,633,301	68,739
In the second year	1,899,261	63,829	1,550,209	60,330
In the third to fifth year				
Inclusive	4,225,201	28,251	4,075,691	44,951
After the fifth year	2,020,494	2,373	2,015,670	2,846
	10,151,938	219,059	9,274,871	176,866

18. Business combinations

On 8th 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) equity interests of 38% in CEA Wuhan from Wuhan SASAC for a consideration of RMB278,000,000, and (ii) equity interests of 18% in CEA Wuhan from Shanghai Junyao for a consideration of RMB140,000,000, totaling RMB418,000,000, respectively. The acquisition was completed in January 2006. Proforma financial information to reflect the acquisition as if it had occurred on 1st January 2006 is not presented as the impact would not have been material to the condensed consolidated interim financial statements.

Details of the net assets acquired in respect of the acquisition of additional equity interests of 56% in CEA Wuhan and related goodwill are as follows:

	RMB'000
Purchase consideration	418,000
Less: Fair value of net assets acquired - shown as below	(160,229)
Goodwill	<u>257,771</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

18. Business combinations (Continued)

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 central regions of the PRC.

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

	Fair value RMB'000	Acquirees' carrying amount RMB'000
Property, plant and equipment	677,465	588,599
Lease prepayments	75,302	75,302
Investments in associates and available-for-sale financial assets	10,446	10,446
Other long term assets	103,838	103,838
Flight equipment spare parts	32,718	32,718
Trade receivables, prepayments, deposits and other receivables	299,261	147,261
Cash and cash equivalents	19,266	19,266
Trade payables, notes payable, other payables and accrued expenses	(551,051)	(551,051)
Obligations under finance leases	(101,007)	(101,007)
Borrowings	(220,000)	(220,000)
Other long-term liabilities	(20,733)	(20,733)
Deferred tax liabilities	(29,326)	–
Net assets	296,179	84,639
Less: Interests attributable to the Group's original equity interests of 40% and other minority investors	(135,950)	(42,873)
Net assets acquired	160,229	41,766
Purchase consideration settled in cash		418,000
Less: Cash and cash equivalents acquired		(19,266)
Purchase consideration paid in prior year		(28,000)
Cash outflow on acquisition		370,734

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

18. Business combinations (Continued)

At 30th June 2006, the Directors were still in the process of identifying and determining the fair values to be assigned to CEA Wuhan's identifiable assets and liabilities, but estimates have been recorded as part of the purchase price allocation, as indicated above. This process is expected to be finalised by December 2006.

19. Related party transactions

The Group is controlled by CEA Holding, which owns approximately 61.64% of the Company's shares as at 30th June 2006. The aviation industry in the PRC is administrated by the Civil Aviation Administration of China ("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 (hereinafter collectively referred to as "the state-controlled enterprises").

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, 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(a) Related party transactions

Other related party transactions were as follows:

Nature of transactions	Related party	(Unaudited) Six months ended 30th June	
		2006 RMB'000	2005 RMB'000
<i>(i) With CEA Holding or companies directly or indirectly held by CEA Holding:</i>			
Interest income on deposits at an average rate of 0.72% (2005: 0.72%) per annum	Eastern Air Group Finance Co., Ltd ("EAGF")**	4,333	2,803
Interest expense on loans at rate of 4.73% (2005: 4.50%) per annum	EAGF**	5,227	3,357
Commission income on carriage services provided by other airlines with air tickets sold by the Group, at rates ranging from 3% to 9% of the value of tickets sold	China Eastern Air Northwest Co., Ltd ("CEA Northwest")* China Eastern Air Yunnan Co., Ltd ("CEA Yunnan")* CEA Wuhan***	- - -	39,247 38,817 17,773

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(a) Related party transactions (Continued)

Nature of transactions	Related party	(Unaudited) Six months ended 30th June	
		2006 RMB'000	2005 RMB'000
<i>(i) With CEA Holding or companies directly or indirectly held by CEA Holding (Continued):</i>			
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*	-	6,507
	CEA Yunnan*	-	5,273
	CEA Wuhan***	-	4,141
	Shanghai Dongmei Aviation Travel Co., Ltd ("SDATC")**	2,985	3,346
	Shanghai Tourism (HK) Co., Ltd ("STCL")##	4,153	10,096
Handling charges of 0.1% to 2% for the purchase of aircraft, flight spare parts, other property, plant and flight equipment	Eastern Aviation Import & Export Co., Ltd ("EAIEC")**	19,433	13,053
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited##	73,799	30,111

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(a) Related party transactions (Continued)

Nature of transactions	Related party	(Unaudited)	
		Six months ended 30th June	
		2006 RMB'000	2005 RMB'000
<i>(i) With CEA Holding or companies directly or indirectly held by CEA Holding (Continued):</i>			
Repairs and maintenance expense for aircraft and engines	Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd ("Wheels & Brakes") [†]	30,291	26,667
	Shanghai Technologies Aerospace Co., Ltd ("STA") [†]	71,719	37,015
Lease rental income from operating lease of aircraft	CEA Wuhan ^{***}	-	12,184
Supply of food and beverages	Shanghai Eastern Air Catering Co., Ltd ("SEAC") ^{##}	64,061	55,293
	Qingdao Eastern Air Catering Investment Co., Ltd. ^{##}	7,068	3,740

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(a) Related party transactions (Continued)

Nature of transactions	Related party	(Unaudited)	
		Six months ended 30th June	
		2006 RMB'000	2005 RMB'000
(i) With CEA Holding or companies directly or indirectly held by CEA Holding (Continued):			
	Xian Eastern Air Catering Investment Co., Ltd.**	11,993	8,193
	Yunnan Eastern Air Catering Investment Co., Ltd.**	14,736	13,556
Advertising expense	Eastern Aviation Advertising Services Co., Ltd ("CAASC")**	5,086	3,454
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation**	586	1,020
(ii) With CAAC and its affiliates:			
Civil aviation infrastructure levies paid	CAAC	332,405	136,558
Aircraft insurance premium paid through CAAC which entered into the insurance policy on behalf of the Group	CAAC	90,311	67,957

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(a) Related party transactions (Continued)

Nature of transactions	Related party	(Unaudited) Six months ended 30th June	
		2006 RMB'000	2005 RMB'000
(iii) With other state-controlled enterprises:			
Take-off and landing fees charges	State-controlled airports	1,200,009	717,003
Purchase of aircraft fuel	State-controlled fuel suppliers	3,716,408	2,314,435
Interest income on deposits at an average rate of 0.72% (2005: 0.72%) per annum	State-controlled banks	6,005	1,402
Interest expense on loans at an average rate of 4.5% (2005: 4.5%) per annum	State-controlled banks	485,623	314,254
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	7,582	4,877
Supply of food and beverages	Other state-controlled enterprises	122,093	128,351

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(b) Balances with related parties

(i) Amounts due from related companies

Company	(Unaudited)	(Audited)
	30th June 2006	31st December 2005
	RMB'000	RMB'000
Eastern Air Holidays ^{##}	37,303	66,457
CEA Holding	6,448	57,773
SDATC ^{**}	61,717	43,223
STCL ^{##}	4,966	23,177
Other related companies	33,834	15,082
	144,268	205,712

Except for amounts due from CEA Holding, which are 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.

(ii) Amounts due to related companies

Company	(Unaudited)	(Audited)
	30th June 2006	31st December 2005
	RMB'000	RMB'000
EAIEC ^{**}	245,187	90,123
CEA Wuhan ^{***}	–	80,407
SEAC ^{##}	21,455	–
CEA Holding	84,242	94,216
Other related companies	27,224	30,284
	378,108	295,030

Except for amounts due to EAGF and CEA Holding, which are 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(b) Balances with related parties (Continued)

(iii) Short-term deposits and short-term loans with EAGF, a 20% associate of the Group

	(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000
Included in "Prepayments, Deposits and Other Receivables" are short-term deposits with an average interest rate of 0.7% (2005: 0.7%) per annum	301,942	475,078
Included in "Borrowings" are short-term loans with an average interest rate of 4.9% (2005: 4.5%) per annum	186,956	188,702

(iv) State-controlled banks and other financial institutions

	(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000
Included in "Cash and Cash Equivalents" are bank deposits with an average interest rate of 0.7% (2005: 0.7%) per annum	1,318,488	1,196,963
Included in "Borrowings" are long-term loans with an average interest rate of 5.1% (2005: 4.6%) per annum	11,916,130	10,438,483

(c) Guarantees by holding company

As at 30th June 2006, long-term bank loans of the Group with an aggregate amount of RMB356,704,000 (31st December 2005: RMB369,772,000) were guaranteed by CEA Holding.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. Related party transactions (Continued)

(c) Guarantees by holding company (Continued)

Notes:

- * The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from 30th June 2005. Transactions with CEA Northwest and CEA Yunnan up to 30th June 2005 are regarded as related party transactions.
- ** EAGF is also a 25% associate of the Group. SDATC, CAASC and EAIEC are all 45% associates of the Group.
- *** The Group acquired additional equity interests of 56% in CEA Wuhan in January 2006. Since then, CEA Wuhan has been a 96% subsidiary of the Group. Transactions with CEA Wuhan up to the acquisition date are regarded as related party transactions.
- # Wheels & Brakes and STA are 40% and 51% jointly controlled entities of the Group respectively.
- ## These companies are related companies of the Group as they are either, directly or indirectly, controlled by, under the joint control or significant influence of CEA Holdings.

20. Convenience translation

The unaudited condensed consolidated interim financial statements have been prepared in Renminbi (“RMB”), the national currency of the PRC. Translations of amounts from RMB into United States dollars (“US\$”) solely for convenience have been made at the rate of US\$1.00 to RMB7.9956 being the average of the buying and selling rates as quoted by People’s Bank of China at the close of business on 30th June 2006. No representation is made that the RMB amounts could have been or could be converted into US\$ at that rate or at any other rate on 30th June 2006 or any other date.

21. Seasonality

The civil aviation industry is subject to seasonal fluctuations, with peak demand during the summer and October holiday season in the second half of the year. As a result, the revenues and results of the Group in the first half of the year are normally lower than those in the second half of the year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

22. Working capital

The Group's primary cash requirements have been for additions of and upgrades to aircraft and flight equipment and payments for debt related to such additions and upgrades. The Group finances its working capital requirements through a combination of funds generated from operations and short and longer-term bank borrowings.

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

23. 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 of the crash of a CEA Yunnan aircraft which occurred on 21st November 2004 in Baotou, Neimonggol, in the PRC.

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

B. Prepared in accordance with PRC Accounting Regulations**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th June 2006

	(Unaudited) 30th June 2006 RMB'000	(Audited) 31st December 2005 RMB'000
Assets		
Total current assets	10,273,380	9,395,287
Net long-term investments	1,161,271	761,722
Total fixed assets	45,981,111	45,543,930
Total intangible assets and other assets	1,773,479	1,729,253
Deferred tax assets	126,304	128,481
Total assets	59,315,545	57,558,673
Liabilities and shareholders' equity		
Total current liabilities	35,171,498	31,529,253
Total long-term liabilities	18,598,656	18,932,974
Deferred tax liabilities	453,519	417,049
Total liabilities	54,223,673	50,879,276
Minority interests	738,747	864,827
Total shareholders' equity	4,353,125	5,814,570
Total liabilities and shareholders' equity	59,315,545	57,558,673

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2006

	(Unaudited)	
	six months ended 30th June	
	2006	2005
	RMB'000	RMB'000
Revenue from main operations	16,373,341	10,040,427
Less: Main operating cost	15,413,026	8,778,673
Business taxes and surcharges	431,976	226,848
Profit from main operations	528,339	1,034,906
Add: Revenue from other operations	350,781	325,178
Less: Operating expenses	1,106,140	747,708
General and administrative expenses	781,613	585,727
Financial expenses	585,975	427,513
Loss from operations	(1,594,608)	(400,864)
Add: Income from investments	1,333	(13,490)
Subsidy income	67,552	61,591
Non-operating income	79,273	16,607
Less: Non-operating expenses	45,297	(5,610)
Total loss	(1,491,747)	(330,546)
Less: Income tax	60,549	78,507
Minority interests	(90,528)	1,401
Net loss	(1,461,768)	(410,454)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Principal accounting policies

The unaudited condensed consolidated interim financial statements prepared in accordance with PRC Accounting Regulations should be read in conjunction with the annual financial statements for the year ended 31st December 2005. The accounting policies adopted are consistent with those described in the annual financial statements for the year ended 31st December 2005.

C. Significant differences between IFRS and PRC Accounting Regulations

Differences between IFRS and PRC Accounting Regulations which have a significant effect on the unaudited consolidated loss attributable to equity holders of the Company and the unaudited consolidated net assets are summarised as follows:

Consolidated loss attributable to equity holders of the Company

	(Unaudited) six months ended 30th June	
	2006 RMB'000	Restated 2005 RMB'000
As stated in accordance with PRC Accounting Regulations	(1,461,768)	(410,454)
Impact of IFRS and other adjustments:		
Difference in flight equipment depreciation charges arising from different depreciation lives	125,851	41,862
Difference in aircraft depreciation charges arising from different depreciation lives and revaluation	(443,859)	(219,867)
Provision for overhaul expenses	(44,769)	(117,913)
Provision for post-retirement benefits	(49,433)	(7,778)
Time value on provision for staff housing allowances	3,746	7,837
Notional interest on non-current purchase consideration payable for acquisition of an airline business	(3,555)	(3,786)
Reversal of revaluation surplus relating to lease prepayments	4,210	5,531
Net fair value gains on financial instruments	69,553	38,372
Others	14,331	18,981
Tax adjustments	70,015	66,648
As stated in accordance with IFRS	(1,715,678)	(580,567)

Consolidated net assets

	30th June 2006 RMB'000	31st December 2005 RMB'000
As stated in accordance with PRC Accounting Regulations	5,091,872	6,679,397
Impact of IFRS and other adjustments:		
Difference in flight equipment depreciation charges arising from different depreciation lives	1,423,011	1,297,160
Difference in aircraft depreciation charges arising from different depreciation lives and revaluation	497,637	881,956
Provision for overhaul expenses	(1,247,736)	(1,202,967)
Provision for post-retirement benefits	(1,289,809)	(1,240,376)
Time value on provision for staff housing allowances	41,295	37,549
Net fair value gains on financial instruments	188,993	72,505
Notional interest on non-current purchase consideration payable for acquisition of an airline business	9,242	12,797
Reversal of revaluation surplus relating to lease prepayments	(345,141)	(349,351)
Goodwill and negative goodwill	569,849	688,311
Others	(35,706)	(95,928)
Tax adjustments	207,504	137,489
As stated in accordance with IFRS	5,111,011	6,918,542

SELECTED AIRLINE OPERATING DATA

	For the six months ended 30th June		
	2006	2005	Change
Capacity			
ATK (available tonne-kilometres) (millions)	5,206.49	3,699.27	40.74%
– Domestic routes	2,350.50	1,096.87	114.29%
– International routes	2,423.38	2,228.94	8.72%
– Hong Kong routes	432.56	373.46	15.82%
ASK (available seat-kilometres) (millions)	33,590.50	20,918.83	60.58%
– Domestic routes	20,523.35	9,329.84	119.98%
– International routes	10,261.32	9,059.40	13.27%
– Hong Kong routes	2,805.84	2,529.59	10.92%
AFTK (available freight tonne-kilometres) (millions)	2,183.34	1,816.58	20.19%
– Domestic routes	503.45	257.18	95.76%
– International routes	1,499.86	1,413.59	6.10%
– Hong Kong routes	180.84	145.80	24.03%
Hours flown (thousands)	322.23	179.99	79.03%
Traffic			
RTK (revenue tonne-kilometres) (millions)	3,243.51	2,165.44	49.79%
– Domestic routes	1,619.54	719.64	125.05%
– International routes	1,410.27	1,239.06	13.82%
– Hong Kong routes	213.71	206.74	3.37%
RPK (revenue passenger-kilometres) (millions)	23,686.16	13,586.73	74.33%
– Domestic routes	15,057.48	6,514.29	131.15%
– International routes	6,958.86	5,451.77	27.64%
– Hong Kong routes	1,669.82	1,620.67	3.03%
RFTK (revenue freight tonne-kilometres) (millions)	1,127.13	953.10	18.26%
– Domestic routes	272.51	136.78	99.23%
– International routes	789.82	754.29	4.71%
– Hong Kong routes	64.79	62.03	4.45%
Number of passengers carried (thousands)	16,787.11	8,753.15	91.78%
– Domestic routes	13,385.18	6,015.14	122.52%
– International routes	2,216.89	1,584.98	39.87%
– Hong Kong routes	1,185.04	1,153.03	2.78%

	For the six months ended 30th June		
	2006	2005	Change
Weight of freight carried (kg) (millions)	419.35	318.99	31.46%
– Domestic routes	209.23	111.40	87.82%
– International routes	166.13	165.00	0.68%
– Hong Kong routes	43.90	42.59	3.08%
Load factors			
Overall load factor (%)	62.30	58.54	3.76
– Domestic routes	68.90	65.61	3.29
– International routes	58.19	55.59	2.60
– Hong Kong routes	49.41	55.36	-5.95
Passenger load factor (%)	70.51	64.95	5.56
– Domestic routes	73.37	69.82	3.55
– International routes	67.82	60.18	7.64
– Hong Kong routes	59.51	64.07	-4.56
Freight load factor (%)	51.62	52.47	-0.85
– Domestic routes	54.13	53.18	0.95
– International routes	52.66	53.36	-0.70
– Hong Kong routes	35.99	42.54	-6.55
Break-even load factor (%)	70.66	65.33	5.33
Yield and costs			
Revenue tonne-kilometers yield (RMB)	5.01	4.50	11.33%
– Domestic routes	5.47	5.24	4.39%
– International routes	4.19	3.66	14.48%
– Hong Kong routes	6.98	6.92	0.87%
Passenger-kilometers yield (RMB)	0.58	0.55	5.45%
– Domestic routes	0.57	0.56	1.79%
– International routes	0.57	0.49	16.32%
– Hong Kong routes	0.70	0.70	0.00%
Freight tonne-kilometers yield (RMB)	2.22	2.37	-6.33%
– Domestic routes	0.87	0.82	6.10%
– International routes	2.46	2.46	0.00%
– Hong Kong routes	5.02	4.77	5.24%
Available tonne-kilometers unit cost (RMB)	3.54	2.94	20.41%

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

As at 30th June, 2006, the Group operated a total of 370 routes, of which 264 were domestic routes, 18 were Hong Kong routes, and 88 were international routes (including 22 international cargo routes). The Group operated approximately 5,637 scheduled flights per week, serving 127 domestic and foreign cities. At present, the Group owns or operates a total of 195 aircraft, including 176 passenger jet aircraft each with a capacity of over 100 seats, 9 passenger jet aircraft each with a capacity of 50 seats and 10 jet freighters.

During the first half of 2006, the world economy maintained a steady pace of growth, and China's national economy experienced stable and rapid growth, underpinning the Group's sound economic prospects. The market demand for air transport in China grew steadily. However, the price of international crude oil and aviation fuel has experienced lengthy peak-level fluctuations and has achieved repeated historical highs, which has brought about a significant increase in costs for the air transport industry. As a result, the results of the Group have been affected significantly.

During the first half of the year, in the face of intensifying market competition, the Group continued to build an air transport network centered in Shanghai and continued to reallocate its transport capacity. For the first half of the year, the Group's flights accounted for 40.64% and 34.73% of all flights at Hongqiao Airport and Pudong Airport, respectively. The daily average utilisation rate reached 9.3 hours.

In terms of passenger traffic, during the first half of 2006, the Group established a passenger traffic marketing committee to enhance marketing management, and successfully introduced several new international routes for scheduled flights, including Shanghai – Frankfurt, Changsha/Wuhan/Huangshan/Ningbo – Seoul, Huangshan – Pusan, thus further improving its international route network. The Group also took an active part in promoting internal code-sharing and enhancing external code cooperation. The Group has expanded its code-sharing arrangements with Air France and American Airlines and has established code-sharing cooperation with Shanghai Airlines Co., Ltd. on certain shared routes. The Group vigorously expanded its “Eastern Miles” frequent flyers and electronic air ticketing value-added service. At present, the number of frequent flyers members has surpassed 5.59 million. The Group's electronic ticketing sales network has expanded to 66 cities across the country, and the sales of electronic tickets accounted for 20% of the Company's total sales for the first half of 2006. The Group, has also cooperated with China Construction Bank and launched the China Eastern Airlines Long Credit Card (東航龍卡), which effectively expanded the Group's brand recognition.

In terms of freight transport, the Group continued to take advantage of Shanghai as an aviation hub and endeavoured to build a market-oriented freight logistic network through exploiting the resources

of the Group's airline route network. The Group has established a cargo traffic management committee to centralize sales management of cargo traffic, through which the freight management department of the Company will continue to work closely with China Cargo Airlines Co., Ltd.(中國貨運航空有限公司) and Shanghai Eastern Logistics Co., Ltd.(上海東方遠航物流有限公司), two subsidiaries of the Company, to open up new cargo sources and enhance both revenue and yield on freight services.

In terms of service, the Group has carefully designed a brand image for certain prestigious services offered by CEA, under the banner of "tenderness, elegance, delicacy and fashion". The Group established a scientific management model and evaluation system for service quality to perfect its service standards and procedures which is based on internationally advanced service management models and taking account of actual circumstances. In addition, the Group has improved its customer complaint handling platform. The Group established a detailed customer information database and regularly communicated with its customers, and endeavoured to improve its service quality on a timely basis. According to statistics compiled by the General Administration of Civil Aviation of China, in the first half of 2006, the on-time rate of the Group's flights was above the average level in the domestic industry. Additionally, through utilising the opportunities arising from becoming one of the joint venture partners of the World Expo 2010 Shanghai, the Group will place additional emphasis on devising service solutions and will launch a range of new services for the World Expo, aimed at establishing a first-class brand image based on prestigious services.

The above figures for the same period in 2005 do not include the results of the the aviation businesses of China Eastern Air Northwest Co., Ltd. and China Eastern Air Yunnan Company Co., Ltd. which were acquired by the Company on 30th June 2005.

As at 30th June, 2006, the traffic volume of the Group totalled 3.244 billion tonne-kilometres, representing an increase of 49.79% from the same period last year, while traffic revenues amounted to RMB16,254 million, representing an increase of 65.42% from the same period last year.

The Group's passenger traffic volume during the reporting period was 23,686 million passenger-kilometres, representing an increase of 74.33% from the same period last year. Compared to the same period last year, passenger revenues increased by 81.75% to RMB13,751 million, accounting for 84.60% of the Group's operating revenues.

The Group's passenger traffic volume on domestic routes during the reporting period was 15,057 million passenger-kilometres, representing an increase of 131.15% from the same period last year. Compared to the same period last year, the passenger load factor increased by 3.55 percentage points to 73.37% and the domestic passenger revenues increased by 135.59% to RMB8,622 million, accounting for 62.70% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.57 during the reporting period, representing an increase of 1.79% compared to the same period last year.

The Group's passenger traffic volume on international routes during the reporting period was 6,959 million passenger-kilometres, representing an increase of 27.64% from the same period last year. Compared to the same period last year, the passenger load factor increased by 7.64 percentage points to 67.82% and the revenues increased by 42.21% to RMB3,942 million, accounting for 28.67% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.57 during the period, representing an increase of 16.32% compared to the same period last year.

The Group's passenger traffic volume on its Hong Kong routes during the reporting period was 1,670 million passenger-kilometres, representing an increase of 3.03% from the same period last year. Compared to the same period last year, the passenger load factor decreased by 4.56 percentage points to 59.51% and, the revenues increased by 4.69% to RMB1,188 million, accounting for 8.64% of the Group's total passenger revenues. Average yield per passenger-kilometre amounted to RMB0.70 during the reporting period, unchanged from the level achieved in the same period last year.

During the first half of 2006, cargo traffic volume increased by 18.26% to 1,127 million tonne-kilometres. Compared to the first half of last year, the Group's freight revenues increased by 10.72% to RMB2,503 million for the same period this year, accounting for 15.40% of the Group's operating revenues. Average yield per freight tonne-kilometre of cargo and mail amounted to RMB2.22, representing an decrease of 6.33% compared to the same period last year.

Compared to the first half of last year, the Group's total operating costs increased by 69.18% to RMB18,383 million during the same period this year, which was principally due to the surge in price of international aviation fuel, which maintained a persistently high level.

During the first half of 2006, the price of international aviation fuel continued to fluctuate around at peak levels and achieved repeated highs. The significant increase in the cost of aircraft fuel placed substantial pressure on the Group's operations. In addition, the fleet expansion enlarged aircraft fuel consumption. During the reporting period, the Group's expenditure on aircraft fuel for the period was RMB6,176 million, representing an increase of 85.78% compared to the same period last year. The Group continued to use financial derivatives to assist in managing its risks relating to the future price of fuel.

Maintenance expenses on aircraft and engines increased by 138.37% to RMB1,259 million compared to the same period last year. This was principally due to the the increase in the number of aircraft under operating leases compared with the same period last year as a result of the Group's business expansion.

Office and administrative expenses increased by 25.44% to RMB1,414 million compared to the same period last year.

Commissions increased by 20.74% to RMB591 million compared to the same period last year.

Takeoff and landing charges were RMB2,433 million, representing an increase of 55.83% from the same period last year, which was principally a result of the increase in transport capacity and the number of takeoffs and landings.

Salary costs were RMB1,561 million, representing an increase of 108.72% compared to the same period last year, principally as a result of the Group's business expansion and the increase in staff numbers.

Aircraft depreciation and operating lease expenses were RMB3,360 million, representing an increase of 61.69% compared to the same period last year, principally as a result of the Group's business expansion.

During the six months ended 30th June, 2006, the Group's losses attributable to shareholders as calculated under the IFRS were RMB1,716 million and the loss per share attributable to equity holders was RMB0.35.

Liquidity and capital resources

The Group finances its working capital requirements through a combination of funds generated from its business operations and short and longer-term bank loans. As at 30th June, 2006, the Group had cash and cash equivalents of RMB1,861 million, most of which were denominated in Renminbi. Net cash inflow generated by the Group's operating activities in the first half of 2006 was RMB195 million, representing a decrease of 73.21% compared to the same period last year.

The Group's primary cash requirements in the first half of 2006 were for acquisitions of, and improvements in, aircraft and flight equipment and for payment of related indebtedness. The Group's net cash used in investment activities was RMB71 million in the first half of 2006.

The Group's net cash used in financing activities was RMB126 million, primarily reflecting an increase in long-term and short-term bank loans.

The Group generally operates with a working capital deficit. As at 30th June, 2006, the Group's current liabilities exceeded the Group's current assets by RMB26,994 million, and the long-term debt to equity ratio was 2.12:1. For years, the Group has arranged, and believes it will be able to continue to arrange, short-term loans through domestic banks in China or foreign-invested banks to meet its working capital requirements.

Pledges on assets and contingent liabilities

The Group generally finances its purchases of aircraft through leases secured by its assets. As at 30th June, 2006, the total value of the Group's mortgaged assets decreased by 2.81% from RMB9,844 million as at the end of 2005, to RMB9,567 million.

Employees

As at 30th June, 2006, the Group had approximately 34,741 employees, the majority of whom were working in mainland China. The wages of the Group's employees generally consist of basic salaries and bonuses. During the reporting period, the Group has not been involved in any major labour-related disputes with its employees, nor has it experienced a substantial reduction in the number of its employees nor has the Group encountered difficulty in recruiting new employees.

Outlook for the second half of 2006

The Group would like to caution readers of this report that the Group's 2006 interim results announcement contains certain forward-looking statements, such as descriptions of the Group's work plans for the second half of 2006 and beyond, and forward-looking statements relating to the global and Chinese economies and aviation markets. Such forward-looking statements are subject to numerous uncertainties and risks, and actual events may be materially different from those indicated in these statements.

The global economy remains in its cycle of economic growth. Benefiting from a sound international economic environment, China continues to maintain a steady and relatively fast pace of economic growth. In addition, the continued accelerating growth of international trade, coupled with persistently active global investment and acquisition and merger activity, are causing a steady increase in passenger and cargo volumes in the domestic air transport sector.

Shanghai, where the Group's operations are mainly based, is also one of the leading contributors to the Chinese economy and is the centre of economic activity in the region. The hub function of its airports has become obviously prominent and, with the gradual opening up of the civil aviation industry in China, progress in "open skies" agreements is accelerating. The Group is faced with keen competition from Chinese and foreign aviation companies in its operation of passenger and cargo transport markets in the eastern area of China, particularly in Shanghai. To expand its business, increase its competitiveness, steadily increase its market share in the Shanghai region, adjust and optimise its route network, and create more attractive services and products to meet market demand, the Group has committed to introduce five A330-300, two A321, an A319, a B747F, four B737-700, and three ERJ145 passenger aircraft to its fleet during the remaining of 2006. It is expected that the new aircraft will be delivered and put into operation in the second half. It is believed that the Group will benefit from the continuing growth in the local transport market in the region.

The continuous rise of crude oil prices has had a significant impact on the global aviation industry. In recognition of the heavy cost pressure brought to the domestic air transport sector by the continuous rise in the international crude oil price, the "Aviation Fuel Surcharge Plan for the Domestic Civil Aviation Industry" (民航國內航空運輸燃油附加費方案) jointly promulgated by the General Administration of Civil Aviation of China and the National Development and Reform Commission in 2005 will continue to be implemented. This measure may serve to offset part of the increased cost incurred by the Group.

In view of current market conditions and the operating and financial challenges faced by the Group, the Group intends to undertake specific measures in the second half of 2006 as follows:

1. We will further endeavour to enhance flight safety and will further perfect our contingency management procedures and plans. We will continue improving the on-time rate of our scheduled flights, and enhance the brand image of the Company in respect of safety and service.
2. We will enhance internal management and commit to enhancing organisational transformation and systems innovation, with the aim of establishing an enterprise management system, an operational model and management procedures, based on well defined authorities and responsibilities, which are consistent with the management of a fast developing and modern air transport network.
3. In terms of passenger traffic, we will intensify our marketing efforts to increase total revenue and its quality. Through utilising the platform provided by the World Expo, we will actively explore new markets. Specific measures include intensifying marketing efforts in respect of frequent flyers and major clients in order to increase our share in the market for high-end customers, with a view to gaining recognition from mainstream customers; making proactive efforts to boost the sales of electronic passenger tickets and placing emphasis on the promotion of electronic passenger tickets; optimising route network and the allocation of transport capacity; ensuring the effective implementation of our hub strategy; striving to ensure that limited manpower and capacity resources are focused on those routes with best profitability; proactively conducting research on the trend to normalise charter flights across the Taiwan Strait during holiday seasons and establishing a specialised team to study the Taiwan market; making strenuous efforts to enhance our seat management, sales trend monitoring and overall control, and increasing our price levels and improving revenue quality.
4. In terms of freight transport, we will continue to reinforce marketing management of the Group's freight operations, make efforts to boost the sales of return cargo and increase belly holds of passenger aircraft. We are also committed to developing our transshipment business and expanding our air-and-land combined transport network, and increasing revenue from freight operations.
5. We will place heavy emphasis on cost control and continue to improve our budget preparation. We will also endeavour to improve the efficiency of capital utilisation and explore additional financing channels. We will continue to use financial derivatives to manage the risks associated with volatile aviation fuel costs and foreign exchange rates.
6. Through utilising the opportunity provided by our partnership in respect of the World Expo, we will commit to introducing innovative products and producing quality services, in an effort to enhance the brand value of CEA.

FLEET PLANNING

As at 30th June, 2006, the expected details of aircraft on order (including those to be owned and those to be held under finance and operating leases), which are scheduled to be delivered and put into service, are as follows:

Year to be delivered	Type of aircraft	Number of aircraft
Second half of 2006	A330-300	5
	A321	2
	A319	1
	B747F	1
	B737-700	4
	ERJ145	3
2007	A330-300	5
	A330-200	1
	A321	4
	A320	2
	A319	2
	B747F	1
	B737NG	2
	ERJ145	3
2008	A330-300	3
	A330-200	1
	A321	5
	A320	2
	B787	4
	B737NG	2

MATERIAL MATTERS

1. Dividend

The Board of Directors of the Company does not recommend payment of any interim dividend for the six months ended 30th June, 2006.

2. Share capital

There was no change in the Company's share capital since 31st December, 2005. As at 30th June, 2006, the Company's share capital structure was as follows:

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

3. Substantial shareholders

So far as the Directors are aware, as at 30th June, 2006, each of the following persons, not being a Director, chief executive, Supervisor or member of the Company's senior management, had an interest and/or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"), or was otherwise interested in 5% or more of any class of the then issued share capital of the Company:

Name of shareholder	Nature of shares held	Number of shares held	Interest As at 30th June, 2006			Short position
			Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued A shares	Approximate percentage of shareholding in the Company's total issued H shares	
China Eastern Air Holding Company	A shares (unlisted State-owned legal person shares)	3,000,000,000	61.64%	90.91%	-	-
HKSCC Nominees Limited (Note)	H shares	1,491,233,163	30.64%	-	95.17%	-

Note:

Based on the information available to the Directors and so far as the Directors are aware and understand, as at 30th June, 2006, among the 1,491,233,163 H shares held by HKSCC Nominees Limited, no person had any interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be, and had been, disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

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

The shareholding interests of the Directors, chief executives, Supervisors and senior management of the Company as at 30th June, 2006 are as follows:

Name	Position	Number of listed A shares held – personal interest	Capacity in which the A shares were held
Li Fenghua	Chairman	5,000 A shares (Note 1)	Beneficial owner
Luo Chaogeng	Director, President	5,000 A shares (Note 1)	Beneficial owner
Cao Jianxiong	Director	5,800 A shares (Note 2)	Beneficial owner
Wan Mingwu	Director, Vice President	5,000 A shares (Note 1)	Beneficial owner
Zhong Xiong	Director	2,800 A shares (Note 3)	Beneficial owner
Luo Zhuping	Director, Company secretary	5,800 A shares (Note 2)	Beneficial owner
Hu Honggao	Independent non-executive Director	–	–
Peter Lok	Independent non-executive Director	–	–
Wu Baiwang	Independent non-executive Director	–	–
Zhou Ruijin	Independent non-executive Director	–	–
Xie Rong	Independent non-executive Director	–	–
Li Wenxin	Chairman of the Supervisory Committee	6,000 A shares (Note 4)	Beneficial owner
Ba Shengji	Supervisor	5,800 A shares (Note 2)	Beneficial owner

Name	Position	Number of listed A shares held – personal interest	Capacity in which the A shares were held
Yang Xingen	Supervisor	3,800 A shares (Note 5)	Beneficial owner
Yang Jie	Supervisor	3,000 A shares (Note 6)	Beneficial owner
Liu Jiashun	Supervisor	3,000 A shares (Note 6)	Beneficial owner
Wu Jiuhong	Vice President	3,000 A shares (Note 6)	Beneficial owner
Zhou Liguo	Vice President	3,000 A shares (Note 6)	Beneficial owner
Zhang Jianzhong	Vice President	5,000 A shares (Note 1)	Beneficial owner
Tong Guo Zhao	Vice President	5,000 A shares (Note 1)	Beneficial owner
Li Yangmin	Vice President	3,000 A shares (Note 6)	Beneficial owner
Luo Weide	Chief Financial Officer	3,000 A shares (Note 6)	Beneficial owner

Note 1: *representing approximately 0.001667% of the Company's total issued listed A shares as at 30th June, 2006.*

Note 2: *representing approximately 0.001933% of the Company's total issued listed A shares as at 30th June, 2006.*

Note 3: *representing approximately 0.000933% of the Company's total issued listed A shares as at 30th June, 2006.*

Note 4: *representing approximately 0.002% of the Company's total issued listed A shares as at 30th June, 2006.*

Note 5: *representing approximately 0.001267% of the Company's total issued listed A shares as at 30th June, 2006.*

Note 6: *representing approximately 0.001% of the Company's total issued listed A shares as at 30th June, 2006.*

Save as disclosed above, as at 30th June, 2006, none of the Directors, chief executives, Supervisors or members of the Company's senior management had any other interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any of such Directors, chief executives, Supervisors or members of the Company's senior management was taken or deemed to have under such provisions of the SFO) and as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be disclosed to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).

5. Purchase, sale or redemption of securities

During the six months ended 30th June, 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its issued listed securities ("securities" having the meaning ascribed thereto under paragraph 1 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), without taking into account any issue of new securities.

6. Corporate governance practices

The Board of Directors has reviewed the relevant provisions and corporate governance practices under the codes of corporate governance practices adopted by the Company, and took the view that, save as disclosed below, the Company's corporate governance practices during the six months ended 30th June, 2006 (the "Period") met the requirements under most of the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules:

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

The Company continues to work with consultants to enhance the Company's systems of internal control.

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

7. Material litigation and arbitration

In 2005, the family members of certain victims of the aircraft accident that occurred in Baotou on 21st November, 2004, sued the Company in a U.S. court for compensation, the amount of which is yet to be determined. As disclosed in the Company's announcement dated 22nd November, 2004, the aircraft which crashed was then owned and operated by China Eastern Air Yunnan Company. The Group is actively collaborating with the General Administration of Civil Aviation of China, the relevant insurance company, the Company's U.S. counsel and other aviation law experts in response to the claim.

Save as disclosed above, the Group was not involved in any other material litigation or arbitration during the six months ended 30th June, 2006.

8. Audit Committee

The Company's Audit Committee has reviewed the interim results of the Group for six months ended 30th June, 2006.

9. Miscellaneous

For the six months ended 30th June, 2006:

- (a) on 10th April, 2006 the Company entered into an agreement with Boeing Company regarding the purchase of sixteen Boeing 737 NG series aircraft, of which details are set out in the Company's announcement dated 10th April, 2006 and the circular dated 30th May, 2006;

- (b) on 26th June, 2006, the Company entered into an agreement with Airbus SAS regarding the purchase of thirty Airbus A320 series aircraft, details of which are set out in the Company's announcement dated 26th June, 2006 and the circular dated 31st July, 2006; and
- (c) the Group has completed various preliminary preparations for the segmented share structure reform project in the China A-share market during the first half of 2006. Based on progress to date, our segmented share structure reform project is expected to be launched in the second half of this year. Subject to necessary approvals from the Government and shareholders, we expect to complete the project by the end of the year.

By order of the Board of Directors
China Eastern Airlines Corporation Limited

Li Fenghua

Chairman

Shanghai, the People's Republic of China
28th August, 2006

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

Li Fenghua (Chairman, Executive Director)

Luo Chaogeng (President, Executive Director)

Cao Jianxiong (Non-executive Director)

Wan Mingwu (Vice President, Executive Director)

Zhong Xiong (Non-executive Director)

Luo Zhuping (Executive Director)

Hu Honggao (Independent Non-executive Director)

Peter Lok (Independent Non-executive Director)

Wu Baiwang (Independent Non-executive Director)

Zhou Ruijin (Independent Non-executive Director)

Xie Rong (Independent Non-executive Director)