

INSURED MUNICIPAL INCOME FUND INC
Form N-CSR
May 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-07528

INSURED MUNICIPAL INCOME FUND INC.

(Exact name of registrant as specified in charter)

51 West 52nd Street, New York, New York 10019-6114

(Address of principal executive offices) (Zip code)

Mark F. Kemper, Esq.

UBS Global Asset Management

51 West 52nd Street

New York, NY 10019-6114

(Name and address of agent for service)

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Copy to:

Jack W. Murphy, Esq.

Dechert LLP

1775 I Street, N.W.

Washington, DC 20006-2401

Registrant's telephone number, including area code: 212-882 5000

Date of fiscal year end: March 31

Date of reporting period: March 31, 2007

Item 1. **Reports to Stockholders.**

Insured Municipal Income Fund Inc.

Annual Report

March 31, 2007

Insured Municipal Income Fund Inc.

May 15, 2007

Dear Shareholder,

We are pleased to present you with the annual report for Insured Municipal Income Fund Inc. (the Fund) for the fiscal year ended March 31, 2007.

Performance

Over the one-year period, the Fund returned 6.31% on a net asset value basis and 8.83% on a market price basis. Over the same period, the median returns for the Fund's peer group, the Lipper Insured Municipal Debt Funds (Leveraged) category, were 5.95% and 5.61% based on net asset value and market price, respectively. Finally, the Fund's benchmark, the Lehman Brothers Municipal Bond Index (the Index), returned 5.43% for the period. (For more performance information, please refer to Performance at a glance on page 6).

The Fund continued to use leverage during the period, which was approximately 39% of total assets as of March 31, 2007. While short-term rates rose at the beginning of the period and increased the Fund's borrowing costs, this leverage still had a positive effect on the Fund's income during the reporting period, as the yields on the Fund's longer-term bonds more than offset the borrowing costs. Leverage magnifies returns on both the upside and on the downside, creating a wider range of returns within the Fund's peer group.

The Fund traded at a discount to its net asset value (NAV) per share during the entire reporting period. A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

An interview with Portfolio Manager Kevin McIntyre

Q. How would you describe the economic environment during the reporting period?

A. After a prolonged period of overall solid growth, the US economy produced mixed results, with evidence of a slowdown apparent as the fiscal year drew to a close. Gross domestic product growth (or GDP

Insured Municipal Income Fund Inc.

Investment goal:

High level of current income exempt from federal income tax, consistent with preservation of capital.

Portfolio manager:

Kevin McIntyre

UBS Global Asset

Management (Americas) Inc.

Commencement:

June 8, 1993

NYSE symbol:

PIF

Dividend payments:

Monthly

Insured Municipal Income Fund Inc.

the market value of all goods and services produced within a country in a given period of time) during the second quarter of 2006 came in at 2.6%, followed by third and fourth quarter numbers of 2.0% and 2.5%, respectively. The advance estimate for first quarter 2007 GDP growth fell to 1.3%.

Overall, the period of more moderate growth was attributed to several factors, including the delayed impact of rising short-term interest rates, high oil prices, the troubled automotive sector, and the cooling of the once red-hot housing market. However, employment growth and corporate earnings were relatively strong, and commodity prices decreased midway through the reporting period, easing some of the pressure on consumers. Late in the reporting period, a bout of volatility gripped the markets. On February 27, 2007, the Dow Jones Industrial Average declined over 400 points, and the Treasury market rallied significantly in response.

Q. How did the Federal Reserve Board (the Fed) react to these economic conditions?

A. At the beginning of the fiscal year in April 2006, the Fed continued its tightening campaign. It raised the federal funds rate (the interest rate banks charge each other for overnight loans) by 25 basis points (0.25%) twice, bringing it to 5.25% by July 2006. In early August, the Fed paused in what had been a series of 17 consecutive rate hikes stretching back to June 2004. The Fed then held rates steady for the duration of the review period, indicating that future rate movements would be data-dependent, as it attempts to keep the economy growing at a reasonable pace and to ward off inflation. While the Fed remains focused on the risks of rising inflation, we currently expect the pause to continue through at least the first half of 2007.

Q. How did the municipal bond market perform in this environment?

A. On the whole, the municipal bond market outperformed Treasuries throughout the reporting period. During the first half of the reporting period, Treasury yields rose, resulting in corresponding price declines, while municipal securities with maturities of 10 to 15 years and longer increased in price during the same period. The difference when comparing performance between municipals and Treasuries was greatest in securities with maturities of around 30 years; the yields on these municipal bonds rose less than Treasury yields, with lack of supply causing municipal bond issues to be relatively expensive.

During the second half of the reporting period, municipals generally maintained their value versus Treasuries, with some slight underperformance among securities with a shorter maturity date (the short end of the yield curve). The municipal curve maintained its relative steepness versus the Treasury curve during this time. Municipal bonds in general continued to be expensive relative to Treasury bonds, but

Insured Municipal Income Fund Inc.

moved closer to our fair value estimates during the latter half of the reporting period.

Q. In general terms, how did you position the portfolio?

A. In terms of duration, we kept a neutral position versus the Index at the beginning of the reporting period. (Duration is a measure of a fund's sensitivity to interest rate changes and is related to the maturity of the bonds comprising the portfolio.) We maintained a modified barbell strategy, concentrating on securities at both ends of the maturity spectrum. Our position in longer-term maturities benefited the portfolio on an absolute basis, as the longer end of the curve outperformed every other area on the yield curve.

We also diversified away from higher grade securities to a limited extent during this time, increasing the Fund's position in relatively lower-rated but still investment-grade securities. Additionally, we increased the Fund's position in securities subject to the alternative minimum tax (AMT) to bring the Fund's investment style more in line with that of its peers, with the goal of making it more competitive. Both of these strategies proved beneficial to Fund performance.

Toward the middle of the reporting period, we moved to a slightly shorter-than-neutral duration versus the Index, a stance which we maintained for the rest of the period. Although Treasury yields fell during this time, our moderate duration stance limited the impact that this event had on Fund performance. While we continued the modified barbell strategy, we did find opportunities in select areas. We sought to add A and BBB rated bonds where we believed the Fund would be compensated for taking on additional risk.

Q. Which sector positions were important for the Fund?

A. We focused our research on uncovering new opportunities in the water, airport and hospital sectors. This research indicates that the water sector tends to have stronger revenue and earnings stability than some other sectors of the municipal market, even in changing economic climates. We slightly increased the Fund's position in water related bonds during the period. As we continued to view the sector positively, it represented the Fund's largest sector position at period end.

Meanwhile, the airport sector continued to rebound, showing strong fundamentals throughout the period. A significant portion of airport sector bonds are subject to the AMT and tend to offer higher yields. The Fund owns NYC IDA revenue bonds for the Terminal One Group Association, which performed well over the period, helping us to diversify the credit quality of the portfolio.

Insured Municipal Income Fund Inc.

While our long-term outlook for the healthcare sector as a whole generally remains on the negative side, we favor those issues that have benefited from the ongoing consolidation. With that in mind, we selectively added to our holdings in this sector, and performance has been solid in recent months.

Although the tobacco sector posted very strong performance yet again during the reporting period, we continued to avoid it, which detracted from performance during the period. We do not believe the potential rewards in the tobacco sector are commensurate with the risks our analysis indicates these bonds entail. In an attempt to concentrate Fund assets on risks we believe are likely to be compensated, we avoided exposure to this sector.

Q. Were there any states or regions that were an area of focus for the Fund?

A. As of March 31, 2007, the Fund had 67.1% of its assets invested in securities of issuers from five states. We continued to focus on states that exhibited improved fiscal health and offered what we considered to be attractively valued municipal bonds. Issues that we believe met that definition included long-term California bonds and New York securities. While we opportunistically reduced these positions at times to benefit performance, California remained our largest single state exposure at period end. During the period, we found Texas bonds attractive, and increased our exposure to New Jersey bonds, primarily with the purchase of New Jersey Transportation Trust Fund bonds, one of our best-performing bonds over the period. At the beginning of the reporting period, we maintained an underweight to Puerto Rico versus the Fund's benchmark, which we selectively lessened throughout the period as Puerto Rico's credit improved.

Q. What is your outlook for the economy and the municipal fixed income market?

A. Throughout the reporting period, corporate earnings appeared quite healthy, while employment and wage data appeared strong. We plan to continue to monitor a number of factors, including inflation and the overall strength of the economy, both of which will likely be primary factors in the Fed's future decisions on interest rates. We believe that it is likely that the economy will recover to trendlike growth, and we do not believe that the cooling housing market will likely cause a recession. With respect to the municipal bond market, we believe there continue to be pockets of attractive valuations along the yield curve and within certain sectors. Our in-house research should help position the Fund well in hopes of taking advantage of those investment opportunities we identify in the months and quarters that follow.

Insured Municipal Income Fund Inc.

We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding your fund, please contact your financial advisor, or visit us at www.ubs.com/globalam-us.

Sincerely,

Kai R. Sotorp

President

Insured Municipal Income Fund Inc.

Head of the Americas

UBS Global Asset Management (Americas) Inc.

Kevin McIntyre

Portfolio Management Team

Insured Municipal Income Fund Inc.

Director

UBS Global Asset Management (Americas) Inc.

Elbridge T. Gerry III

Portfolio Management Team

Insured Municipal Income Fund Inc.

Managing Director

UBS Global Asset Management (Americas) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the fiscal year ended March 31, 2007. The views and opinions in the letter were current as of May 15, 2007. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

Insured Municipal Income Fund Inc.

Performance at a glance (unaudited)

Average annual total returns for periods ended 03/31/07

Net asset value returns	1 year	5 years	10 years
Insured Municipal Income Fund Inc.	6.31%	5.47%	6.07%
Lipper Insured Municipal Debt Funds (Leveraged) median	5.95	6.82	6.47
Market price returns			
Insured Municipal Income Fund Inc.	8.83%	6.60%	7.46%
Lipper Insured Municipal Debt Funds (Leveraged) median	5.61	6.95	6.56
Index returns			
Lehman Brothers Municipal Bond Index	5.43%	5.50%	5.87%

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. The Fund's net asset value (NAV) returns assume, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on the payable dates. The Fund's market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

The Lehman Brothers Municipal Bond Index is an unmanaged, unleveraged measure of the total return for municipal bonds issued across the United States. Index returns do not include reinvestment of dividends and do not reflect any fees or expenses.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group.

Share price, dividend and yields as of 03/31/07

Market price	\$13.48
Net asset value (per share applicable to common shareholders)	\$14.96
March 2007 dividend	\$0.05
Market yield*	4.45%
NAV yield*	4.01%

* Market yield is calculated by multiplying the March dividend by 12 and dividing by the month-end market price. NAV yield is calculated by multiplying the March dividend by 12 and dividing by the month-end net asset value. Prices and yields will vary.

Insured Municipal Income Fund Inc.

Portfolio statistics (unaudited)

Characteristics	03/31/07	09/30/06	03/31/06
Net assets applicable to common shareholders (mm)	\$308.6	\$309.6	\$303.3
Weighted average maturity	15.7 yrs	15.0 yrs	15.4 yrs
Weighted average modified duration	4.6 yrs	4.9 yrs	5.2 yrs
Weighted average coupon	5.1%	5.1%	5.1%
Leverage**	39.3%	40.1%	39.7%
Securities subject to alternative minimum tax (AMT)*	15.9%	14.8%	8.6%
Maturing within five years*	8.2%	13.6%	12.3%
Maturing beyond five years*	91.8%	86.4%	87.7%
Insured securities*	81.8%	81.3%	83.4%
Non-insured securities*	18.2%	18.7%	16.6%
Portfolio composition***	03/31/07	09/30/06	03/31/06
Long-term municipal bonds	94.6%	89.0%	91.2%
Short-term municipal notes	5.8	10.6	8.0
Futures and swaps	0.1	(0.1)	0.0
Other assets less liabilities	(0.5)	0.5	0.8
Total	100.0%	100.0%	100.0%
Credit quality*	03/31/07	09/30/06	03/31/06
AAA	76.4%	71.0%	82.8%
AA	5.4	8.7	1.1
A	3.2	2.2	1.2
BBB	6.7	4.9	4.6
A-1	1.1	9.8	8.1
Nonrated	7.2	3.4	2.2
Total	100.0%	100.0%	100.0%

* Weightings represent percentages of total investments as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are designated by Standard & Poor's Rating Group, an independent rating agency.

** As a percentage of total assets as of the dates indicated.

*** As a percentage of net assets applicable to common and preferred shareholders as of the dates indicated.

Represents less than 0.05% of net assets applicable to common and preferred shareholders as of the date indicated.

Insured Municipal Income Fund Inc.

Portfolio statistics (unaudited) (concluded)

Top five states*	03/31/07		09/30/06		03/31/06
California	31.7%	California	26.3%	California	30.5%
New York	10.6	New York	13.4	Texas	15.5
Florida	10.2	Florida	7.4	New York	14.2
Texas	8.2	Texas	7.0	Florida	7.4
South Carolina	6.4	South Carolina	6.5	South Carolina	4.9
Total	67.1%		60.6%		72.5%
Top five sectors*	03/31/07		09/30/06		03/31/06
Water	25.6%	Water	20.8%	Water	25.4%
General obligations	17.7	Power	14.5	Power	17.5
Power	11.3	Airport	12.1	Airport	8.4
Airport	11.1	Hospital	9.1	Hospital	4.0
Hospital	7.0	Transportation	7.3	University	2.5
Total	72.7%		63.8%		57.8%

* Weightings represent percentages of total investments as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time.

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds 159.01%						
California 53.44%						
\$3,000	California State Department of Water Resources Revenue-Central Valley Project-Series AC (MBIA Insured)	Aaa	AAA	12/01/27	5.000%	\$3,175,290
4,000	California State General Obligation	A1	A+	02/01/33	5.000	4,321,400
30	California State General Obligation (FGIC Insured)	Aaa	AAA	11/01/12	7.000	30,084
7,000	California State General Obligation Refunding-Series 2	A1	A+	09/01/27	5.000	7,370,160
3,305	Chino Valley Unified School District-Series A (FSA Insured)	Aaa	AAA	08/01/26	5.000	3,480,628
13,500	Contra Costa County Public Financing Lease Revenue Refunding-Medical Center-Series B (MBIA Insured)	Aaa	AAA	06/01/17	5.000	14,729,175
2,000	Long Beach Finance Authority Lease Revenue-Aquarium of the South Pacific (AMBAC Insured)	Aaa	AAA	11/01/15	5.500	2,154,880
5,000	Long Beach Harbor Revenue Refunding-Series A (FGIC Insured) ¹	Aaa	AAA	05/15/13	6.000	5,566,950
5,000	Los Angeles Community College District Refunding-Election 2001-Series A (FSA Insured)	Aaa	AAA	08/01/25	5.000	5,307,500

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
California (continued)						
\$9,000	Los Angeles Community College District Refunding-Election 2001-Series A (FSA Insured)	Aaa	AAA	06/01/26	5.000%	\$9,540,450
8,475	Los Angeles County Sanitation Districts Financing Authority Revenue-Capital Projects-Series A (FSA Insured)	Aaa	AAA	10/01/20	5.000	9,059,944
11,625	Los Angeles Wastewater System Revenue Refunding-Subseries A (MBIA Insured)	Aaa	AAA	06/01/26	5.000	12,228,454
5,000	Los Angeles Water & Power Revenue-Power System-Series A, Subseries A-2 (MBIA-IBC Insured)	Aaa	AAA	07/01/30	5.000	5,262,600
6,000	Los Angeles Water & Power Revenue-Power System-Series B (FSA Insured)	Aaa	AAA	07/01/25	5.000	6,338,880
15,000	Manteca Financing Authority Water Revenue-Series A (MBIA Insured)	Aaa	AAA	07/01/33	4.750	15,332,700
10,000	Metropolitan Water District of Southern California Waterworks Revenue-Series A (FSA Insured)	Aaa	AAA	07/01/35	5.000	10,566,700

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
California (continued)						
\$7,160	Oxnard Financing Authority Wastewater Revenue-Redwood Trunk Sewer & Headworks-Series A (FGIC Insured)	Aaa	AAA	06/01/34	5.250%	\$7,673,945
10,000	Sacramento County Sanitation District Financing Authority Revenue Refunding (AMBAC Insured)	Aaa	AAA	12/01/27	5.000	10,370,700
7,000	Sacramento Municipal Utility District Electric Revenue-Municipal Utility District-Series R (MBIA Insured)	Aaa	AAA	08/15/19	5.000	7,487,690
5,000	Sacramento Municipal Utility District Electric Revenue-Municipal Utility District-Series R (MBIA Insured)	Aaa	AAA	08/15/33	5.000	5,230,000
4,000	San Francisco City & County Airports Commission International Airport Revenue Refunding-Second Series 27B (FGIC Insured)	Aaa	AAA	05/01/15	5.250	4,220,560
3,000	San Francisco City & County Public Utilities Commission Water Revenue-Series A (MBIA Insured)	Aaa	AAA	11/01/25	5.000	3,157,950

11

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody's rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
California (concluded)						
\$7,910	San Jose Libraries, Parks & Public Safety Project (MBIA Insured)	Aaa	AAA	09/01/27	5.000%	\$8,298,855
3,825	Walnut Energy Center Authority Revenue-Series A (AMBAC Insured)	Aaa	AAA	01/01/34	5.000	3,987,065
						164,892,560
District of Columbia 4.05%						
4,000	District of Columbia Hospital Revenue Refunding-Medlantic Healthcare-Series A (Escrowed to Maturity) (MBIA Insured)	Aaa	AAA	08/15/14	5.750	4,086,280
6,000	District of Columbia Water & Sewer Authority Public Utility Revenue-Subordinate Lien Revenue (FGIC Insured)	Aaa	AAA	10/01/33	5.000	6,242,940
2,000	Metropolitan Washington, D.C. Airport Authority Airport System Revenue-Series A (MBIA Insured) ¹	Aaa	AAA	10/01/16	5.250	2,171,480
						12,500,700
Florida 12.29%						
8,000	Florida State Board of Education-Capital Outlay-Series E (FGIC Insured)	Aaa	AAA	06/01/24	5.000	8,385,040

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Florida (continued)						
\$10,220	Florida State Board of Education-Public Education-Series A (FSA Insured)	Aaa	AAA	06/01/27	5.000%	\$10,750,520
1,060	Hillsborough County Port District Revenue-Tampa Port Authority Project-Series A (MBIA Insured) ¹	Aaa	AAA	06/01/16	5.750	1,155,464
1,115	Hillsborough County Port District Revenue-Tampa Port Authority Project-Series A (MBIA Insured) ¹	Aaa	AAA	06/01/17	5.750	1,214,324
1,175	Hillsborough County Port District Revenue-Tampa Port Authority Project-Series A (MBIA Insured) ¹	Aaa	AAA	06/01/18	5.750	1,279,669
1,240	Hillsborough County Port District Revenue-Tampa Port Authority Project-Series A (MBIA Insured) ¹	Aaa	AAA	06/01/19	5.750	1,350,459
10,000	Miami-Dade County Aviation Revenue Refunding-Miami International Airport-Series B (XLCA Insured) ¹	Aaa	AAA	10/01/18	5.000	10,537,800

13

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Florida (concluded)						
\$3,000	Miami-Dade County Expressway Authority Toll System Revenue-Series B (FGIC Insured)	Aaa	AAA	07/01/26	5.250%	\$3,243,690 37,916,966
Georgia 9.08%						
11,545	Atlanta Airport Revenue Refunding-Series D (FGIC Insured) ¹	Aaa	AAA	01/01/15	5.250	12,369,775
1,015	Columbus Building Authority Lease Revenue-Series A (FGIC Insured)	Aaa	AAA	01/01/16	5.250	1,106,695
5,000	George L Smith II World Congress Center Authority Revenue Refunding-Domed Stadium Project (MBIA Insured) ¹	Aaa	AAA	07/01/14	5.750	5,312,750
15	Georgia Municipal Electric Authority Power Revenue-Series Y (Escrowed to Maturity) (MBIA-IBC Insured)	Aaa	AAA	01/01/10	10.000	17,433
4,515	Georgia Municipal Electric Authority Power Revenue-Unrefunded Balance-Series Y (FSA-CR Insured) ²	Aaa	AAA	01/01/10	10.000	5,248,597

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Georgia (concluded)						
\$3,410	Georgia Municipal Electric Authority Power Revenue-Unrefunded Balance-Series Y (MBIA-IBC Insured)	Aaa	AAA	01/01/10	10.000%	\$3,964,057 28,019,307
Illinois 3.72%						
1,500	Chicago General Obligation-Series A (FSA Insured)	Aaa	AAA	01/01/25	5.000	1,572,525
2,000	Chicago General Obligation-Series A (FSA Insured)	Aaa	AAA	01/01/26	5.000	2,094,300
4,500	Illinois Health Facilities Authority Revenue-Franciscan Sisters Health Care-Series C (Escrowed to Maturity) (MBIA Insured)	Aaa	AAA	09/01/18	5.750	5,042,430
2,395	Metropolitan Pier & Exposition Authority Dedicated State Tax-Series A-2002 (Pre-refunded with US Government Securities to 06/15/19 @ 100) (FGIC Insured)	Aaa	AAA	12/15/23	5.500	2,782,822 11,492,077

15

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Indiana 4.77%						
\$5,000	Indiana Health & Educational Facilities Financing Authority Hospital Revenue Refunding-Clarian Health Obligation Group-Series B	A2	A+	02/15/30	5.000%	\$5,158,850
8,000	Indianapolis Airport Authority Revenue Refunding-Special Facilities-Fed Ex Corp. Project (Federal Express Co. GTD) ¹	Baa2	BBB	01/15/17	5.100	8,476,400
1,000	Indiana University Revenue-Student Fee-Series O (FGIC Insured)	Aaa	AAA	08/01/18	5.250	1,077,420
						14,712,670
Maine 1.56%						
4,785	Maine Health & Higher Educational Facilities Authority Revenue-Series A (Escrowed to Maturity) (FSA Insured)	NR	AAA	07/01/23	5.500	4,823,519
Michigan 3.91%						
5,525	Michigan State Hospital Finance Authority Revenue Refunding-Trinity Health Credit Group-Series D	Aa3	AA-	08/15/25	5.000	5,770,586

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Michigan (concluded)						
\$6,000	Michigan State Hospital Finance Authority Revenue-Trinity Health Credit Group-Series A	Aa2	AA-	12/01/26	5.000%	\$6,295,140 12,065,726
Minnesota 1.72%						
5,000	Minneapolis & St. Paul Metropolitan Airport Commission Airport Revenue-Series B (FGIC Insured) ¹	Aaa	AAA	01/01/19	6.000	5,312,100
Missouri 1.32%						
1,740	St. Louis Airport Revenue-Capital Improvement Program-Series A					
	(Pre-refunded with US Government Securities to 07/01/12 @ 100) (MBIA Insured)	Aaa	AAA	07/01/15	5.375	1,878,730
2,035	St. Louis Airport Revenue-Capital Improvement Program-Series A					
	(Pre-refunded with US Government Securities to 07/01/12 @ 100) (MBIA Insured)	Aaa	AAA	07/01/16	5.375	2,197,251 4,075,981

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Nevada 1.43%						
\$4,200	Clark County-Bond Bank-Unrefunded Balance (MBIA Insured)	Aaa	AAA	06/01/32	5.000%	\$4,404,414
New Jersey 4.65%						
3,150	New Jersey Economic Development Authority Revenue-Cigarette Tax (FGIC Insured)	Aaa	AAA	06/15/09	5.000	3,240,626
10,000	New Jersey Transportation Trust Fund Authority-Transportation System-Series A	A1	AA-	12/15/20	5.250	11,096,300 14,336,926
New Mexico 2.85%						
4,130	University of New Mexico Revenue-Hospital Mortgage (FSA-FHA Insured)	Aaa	AAA	01/01/23	5.000	4,345,008
4,230	University of New Mexico Revenue-Hospital Mortgage (FSA-FHA Insured)	Aaa	AAA	07/01/23	5.000	4,450,214 8,795,222
New York 17.96%						
5,000	Hudson Yards Infrastructure Corp. Revenue-Series A (FGIC Insured)	Aaa	AAA	02/15/47	5.000	5,288,850
5,650	Metropolitan Transportation Authority Dedicated Tax Fund-Series A (FSA Insured)	Aaa	AAA	11/15/24	5.250	6,067,083

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody's rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
New York (continued)						
\$4,615	New York City General Obligation-Subseries F-1	A1	AA-	09/01/25	5.000%	\$4,857,657
5,000	New York City Industrial Development Agency Special Facilities Revenue-Terminal One Group Association Project ¹	A3	BBB+	01/01/15	5.500	5,464,000
6,685	New York City Industrial Development Agency Special Facilities Revenue-Terminal One Group Association Project ¹	A3	BBB+	01/01/16	5.500	7,315,596
2,750	New York City Industrial Development Agency Special Facilities Revenue-Terminal One Group Association Project ¹	A3	BBB+	01/01/18	5.500 ³	2,986,307
7,000	New York City Municipal Water Finance Authority Water & Sewer System Revenue-Series C (MBIA Insured)	Aaa	AAA	06/15/26	5.000	7,424,900
10,080	New York City Municipal Water Finance Authority Water & Sewer System Revenue-Series C (MBIA Insured)	Aaa	AAA	06/15/27	5.000	10,677,442

19

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
New York (concluded)						
\$5,000	Triborough Bridge & Tunnel Authority Revenue-Subordinate Bonds (AMBAC Insured)	Aaa	AAA	11/15/26	5.125%	\$5,336,300 55,418,135
Pennsylvania 6.69%						
15,390	Allegheny County Sanitation Authority Sewer Revenue Refunding-Series A (MBIA Insured)	Aaa	AAA	12/01/23	5.000	16,391,120
4,000	Philadelphia Authority For Industrial Development Airport Revenue-Philadelphia Airport System Project-Series A (FGIC Insured) ¹	Aaa	AAA	07/01/18	5.500	4,253,120 20,644,240
Puerto Rico 3.42%						
10,000	University of Puerto Rico-University Revenue Refunding System-Series P	Baa2	BBB	06/01/21	5.000	10,548,500
South Carolina 10.88%						
2,500	Medical University of South Carolina Hospital Authority- Hospital Facilities Revenue Refunding-Series A (MBIA-FHA Insured)	Aaa	AAA	02/15/25	5.250	2,664,875

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody's rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
South Carolina (concluded)						
\$1,000	Myrtle Beach Water & Sewer Revenue System Refunding					
	(Pre-refunded with US Government Securities to 03/01/13 @ 100) (FGIC Insured)	Aaa	AAA	03/01/15	5.375%	\$1,087,170
20,000	South Carolina Public Service Authority Revenue-Santee Cooper-Series A (MBIA Insured)	Aaa	AAA	01/01/25	5.000	21,250,800
8,180	South Carolina Transportation Infrastructure Bank Revenue-Series A (AMBAC Insured)	Aaa	NR	10/01/33	5.000	8,568,141
						33,570,986
Texas 12.48%						
5,170	Fort Bend Independent School District Refunding-Series A (PSF-GTD)	NR	AAA	08/15/26	5.250	5,596,163
13,500	Houston Utility System Revenue Refunding-First Lien-Series A (FGIC Insured)	Aaa	AAA	05/15/23	5.250	14,580,000
5,665	Houston Utility System Revenue Refunding-First Lien-Series A (MBIA Insured)	Aaa	AAA	05/15/25	5.250	6,118,200

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody s rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (continued)						
Texas (concluded)						
\$2,000	Jefferson County General Obligation Refunding (FGIC Insured)	Aaa	AAA	08/01/20	5.250%	\$2,135,780
720	San Antonio Water Revenue (Pre-refunded with US Government Securities to 05/15/07 @ 100) (MBIA Insured)	Aaa	AAA	05/15/16	6.000	795,924
9,000	Wylie Independent School District Refunding (PSF-GTD)	Aaa	AAA	08/15/30	5.000	9,270,090
						38,496,157
Washington 2.39%						
2,220	Cowlitz County School District No. 458 Kelso (FSA Insured)	Aaa	NR	12/01/15	5.750	2,426,771
1,000	Cowlitz County School District No. 458 Kelso (FSA Insured)	Aaa	NR	12/01/18	5.750	1,090,680
1,500	King County Public Hospital District No. 2 Refunding-Evergreen Healthcare (MBIA Insured)	Aaa	AAA	12/01/18	5.000	1,608,150
2,095	King County Public Hospital District No. 2 Refunding-Evergreen Healthcare (MBIA Insured)	Aaa	AAA	12/01/19	5.000	2,237,418
						7,363,019

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody's rating (unaudited)	S&P rating (unaudited)	Maturity dates	Interest rates	Value
Long-term municipal bonds (concluded)						
Wisconsin 0.40%						
\$1,105	Ladysmith-Hawkins School District Refunding (FGIC Insured)	Aaa	NR	04/01/20	5.500%	\$1,231,931
Total long-term municipal bonds (cost \$483,932,324)						490,621,136
Short-term municipal notes⁴ 9.74%						
Florida 4.93%						
15,215	Sunshine State Governmental Financing Commission Revenue (AMBAC Insured)	VMIG-1	NR	04/02/07	3.800	15,215,000
Illinois 0.95%						
2,950	Chicago Midway Airport Revenue-Second Lien-Series B (MBIA Insured) ¹	VMIG-1	A-1+	04/02/07	3.810	2,950,000
Kentucky 1.62%						
5,000	Lexington-Fayette Urban County Airport Corp. Revenue-1st Mortgage-Series A (MBIA Insured) ¹	VMIG-1	NR	04/02/07	3.830	5,000,000
Missouri 0.94%						
2,900	Missouri Health & Educational Facilities Authority- Educational Facilities Revenue-St. Louis University-Series A (MBIA Insured)	VMIG-1	A-1+	04/02/07	3.750	2,900,000

23

Insured Municipal Income Fund Inc.

Portfolio of investments March 31, 2007

Principal amount (000)		Moody's rating (unaudited)	S&P rating (unaudited)	Maturity date	Interest rate	Value
Short-term municipal notes⁴ (concluded)						
Texas 1.30%						
\$4,000	Bell County Health Facilities Development Corp. Revenue- Scott & White Memorial Hospital-Series 2001-2 (MBIA Insured)	VMIG-1	NR	04/02/07	3.770%	\$4,000,000
Total short-term municipal notes (cost \$30,065,000)						30,065,000
Total investments (cost \$513,997,324) 168.75%						520,686,136
Liabilities in excess of other assets (0.69)%						(2,134,563)
Liquidation value of auction preferred shares (68.06)%						(210,000,000)
Net assets applicable to common shareholders 100.00%						\$308,551,573

1 Security subject to Alternative Minimum Tax.

2 Partial amount delivered to broker as collateral for futures transactions.

3 Floating rate security. The interest rate shown is the current rate as of March 31, 2007.

4 Variable rate demand notes are payable on demand. The maturity dates shown are the next interest rate reset dates. The interest rates shown are the current rates as of March 31, 2007.

AMBAC American Municipal Bond Assurance Corporation

CR Custodial Receipts

FGIC Financial Guaranty Insurance Company

FHA Federal Housing Authority

FSA Financial Security Assurance

GTD Guaranteed

IBC Insured Bond Certificate

MBIA Municipal Bond Investors Assurance

NR Not Rated

PSF Permanent School Fund

XLCA XL Capital Assurance

Futures contracts

Number of contracts	Sale contracts	Expiration dates	Proceeds	Current value	Unrealized appreciation
135	US Treasury Bond 20 Year Futures	June 2007	\$15,230,364	\$15,018,750	\$211,614
170	US Treasury Note 10 Year Futures	June 2007	18,465,774	18,381,250	84,524
305			\$33,696,138	\$33,400,000	\$296,138

See accompanying notes to financial statements

Insured Municipal Income Fund Inc.

Statement of assets and liabilities March 31, 2007

Assets:

Investments in securities, at value (cost \$513,997,324)	\$520,686,136
Cash	36,332
Receivable for investments sold	6,284,787
Receivable for interest	6,597,705
Receivable for variation margin	63,438
Other assets	37,425
Total assets	533,705,823

Liabilities:

Payable for investments purchased	14,689,215
Payable to investment advisor and administrator	219,369
Dividends payable to auction preferred shareholders	91,563
Accrued expenses and other liabilities	154,103
Total liabilities	15,154,250
Auction preferred shares Series A, B, C, D, E & F 4,200 non-participating shares authorized, issued and outstanding; \$0.001 par value per auction preferred share; \$50,000 liquidation value per auction preferred share	210,000,000
Net assets applicable to common shareholders	\$308,551,573

Net assets applicable to common shareholders:

Common stock \$0.001 par value per common share; 199,995,800 shares authorized; 20,628,363 shares issued and outstanding	\$301,976,191
Accumulated undistributed net investment income	141,442
Accumulated net realized loss from investments, futures and swaps	(551,010)
Net unrealized appreciation of investments and futures	6,984,950
Net assets applicable to common shareholders	\$308,551,573
Net asset value per common share (\$308,551,573 applicable to 20,628,363 common shares outstanding)	\$14.96

See accompanying notes to financial statements

Insured Municipal Income Fund Inc.

Statement of operations

	For the year ended March 31, 2007
Investment income:	
Interest	\$23,200,807
Expenses:	
Investment advisory and administration fees	4,646,224
Auction preferred shares expenses	603,632
Custody and accounting fees	188,220
Reports and notices to shareholders	105,631
Professional fees	91,652
Directors fees	28,820
Insurance fees	23,473
Transfer agency fees	21,402
Stock exchange listing fees	19,628
Other expenses	15,629
	5,744,311
Less: Fee waivers by investment advisor and administrator	(1,914,331)
Net expenses	3,829,980
Net investment income	19,370,827
Realized and unrealized gains (losses) from investment activities:	
Net realized gain (loss) from:	
Investments	886,092
Futures	(1,189,986)
Swaps	628,333
Net change in unrealized appreciation/depreciation of:	
Investments	6,507,710
Futures	295,452
Swaps	(413,608)
Net realized and unrealized gain from investment activities	6,713,993
Dividends and distributions paid to auction preferred shareholders from:	
Net investment income	(7,077,445)
Net realized gains from investment activities	(361,884)
Total dividends and distributions paid to auction preferred shareholders	(7,439,329)
Net increase in net assets applicable to common shareholders resulting from operations	\$18,645,491

See accompanying notes to financial statements

Insured Municipal Income Fund Inc.

Statement of changes in net assets applicable to common shareholders

	For the years ended March 31,	
	2007	2006
From operations:		
Net investment income	\$19,370,827	\$18,502,388
Net realized gains from investments, futures and swaps	324,439	6,929,139
Net change in unrealized appreciation/depreciation of investments, futures and swaps	6,389,554	(6,284,086)
Dividends and distributions paid to auction preferred shareholders from:		
Net investment income	(7,077,445)	(4,609,332)
Net realized gains from investment activities	(361,884)	(1,383,754)
Total dividends and distributions paid to auction preferred shareholders	(7,439,329)	(5,993,086)
Net increase in net assets applicable to common shareholders resulting from operations	18,645,491	13,154,355
Dividends and distributions paid to common shareholders from:		
Net investment income	(12,707,071)	(13,490,950)
Net realized gains from investment activities	(701,365)	(4,381,465)
Total dividends and distributions paid to common shareholders	(13,408,436)	(17,872,415)
Net increase (decrease) in net assets applicable to common shareholders	5,237,055	(4,718,060)
Net assets applicable to common shareholders:		
Beginning of year	303,314,518	308,032,578
End of year	\$308,551,573	\$303,314,518
Accumulated undistributed net investment income	\$141,442	\$483,299

See accompanying notes to financial statements

Insured Municipal Income Fund Inc.

Financial highlights

Selected data for a share of common stock outstanding throughout each year is presented below:

	For the year ended March 31, 2007
Net asset value, beginning of year	\$14.70
Net investment income	0.94
Net realized and unrealized gains (losses) from investment activities	0.33
Common share equivalent of dividends and distributions paid to auction preferred shareholders from:	
Net investment income	(0.34)
Net realized gains from investment activities	(0.02)
Total dividends and distributions paid to auction preferred shareholders	(0.36)
Net increase from operations	0.91
Dividends and distributions paid to common shareholders from:	
Net investment income	(0.62)
Net realized gains from investment activities	(0.03)
Total dividends and distributions paid to common shareholders	(0.65)
Auction preferred shares offering expenses	
Net asset value, end of year	\$14.96
Market value, end of year	\$13.48
Total investment return³	8.83%
Ratio to average net assets attributable to common shares:	
Total expenses, net of fee waivers by advisor and administrator	1.25%
Total expenses, before fee waivers by advisor and administrator	1.88%
Net investment income before auction preferred shares dividends	6.32%
Auction preferred shares dividends from net investment income	2.31%
Net investment income available to common shareholders	4.01%
Supplemental data:	
Net assets applicable to common shareholders, end of year (000 s)	\$308,552
Portfolio turnover	39%
Asset coverage per share of auction preferred shares, end of year	\$123,465

1 Calculated using the average month-end common shares outstanding for the year.

2 Amount represents less than \$0.005 per common share.

3 Total investment return is calculated assuming a \$10,000 purchase of common stock at the current market price on the first day of each year reported and a sale at the current market price on the last day of each year reported, and assuming reinvestment of dividends and other distributions to common shareholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

See accompanying notes to financial statements

Insured Municipal Income Fund Inc.

For the years ended March 31,

2005	2004
\$15.39	\$15.76
0.83	0.84

- (1) Figures of payments due by period are not available.

- (2) For our variable rate loans, interest rates range from 3 months LIBOR + 0.25% to 6 months LIBOR + 0.6%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2005. A 1% increase or decrease in the interest rate would increase or decrease the interest obligations by RMB278 million in total with RMB97 million in year 1, RMB95 million in years 2 and 3, RMB55 million in years 4 and 5 and RMB31 million for subsequent years.

Other Commercial Commitments	Total Amounts Committed (RMB millions)	Amount of Commitment Expiration Per Period (RMB millions)			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Line of Credit	65,500	25,500	40,000		
Standby Letters of Credit					
Guarantees					
Standby Repurchase Obligations					
Other Commercial Commitments					
Total	65,500	25,500	40,000		

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions.

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and make estimates that our directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial

-45-

Table of Contents

condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The critical accounting policies adopted and estimates made in the preparation of these financial statements are identified as follows:

Estimated impairment of goodwill We test annually whether goodwill has been impaired in accordance with the accounting policy stated in Note 2(1) to our audited consolidated financial statements. 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 to our audited consolidated financial statements). In 2005, after reviewing the business environment as well as our objectives and past performance, management concluded that there was no material impairment loss for goodwill.

Estimated impairment of property, plant and equipment We have made substantial investments in tangible long-lived assets. We conduct 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 judgment, including our estimates of the future cash flows attributable to the asset and the appropriate discount rate. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge, if any.

Property, plant and equipment We had approximately RMB38,348 million of fixed assets as of December 31, 2005, including aircraft, engines and flight equipment with a value of approximately RMB34,740 million. As discussed in Note 2(j) to our audited consolidated financial statements, property, plant and equipment are initially recognized at cost and are subsequently stated at revalued amount less accumulated depreciation. Under U.S. GAAP, our fixed assets are initially recognized at cost less accumulated depreciation and impairment charges, if any. Independent valuations are conducted at least every five years or sooner if considered necessary by our directors. In the intervening years, our directors would review the carrying value of the fixed assets from time to time and make adjustments if the carrying value is materially different from the fair value. Their recorded value is impacted by management judgment, including valuations performed by the management and/or independent professional valuers, estimates of useful lives, residual value and impairment charges. If different judgments or estimates had been utilized, material differences could have resulted in the amount of revaluation and related depreciation charges. We revalued our fixed assets on December 31, 2002 based on a market value basis. Our directors reviewed the carrying value of our company's fixed assets as of December 31, 2005 and are of the opinion that the carrying amount of the fixed assets is not materially different from the estimated fair value and no impairment or changes in estimates of useful lives are necessary.

Fair value estimation The carrying amounts of our 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.

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.

Table of Contents

Maintenance and overhaul costs In respect of aircraft and engines under operating leases, we have 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 labor 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 our company or held under finance leases, costs of overhaul are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognized 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 derecognized and charged to the income statement.

Retirement benefits We participate in defined contribution retirement schemes organized by the municipal governments of respective provinces. We also operate and maintain 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) to our audited consolidated financial statements, the cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees' service period by utilizing 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 payment is based on the general local economic conditions. The employees' turnover rate is based on historical trends of our company. See Note 33 to our audited consolidated financial statements for additional information regarding the retirement benefit plans.

Deferred taxation While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognized, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our 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 our ability to utilize 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.

Current tax We make 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 our company 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.

Foreign Currency Transactions

We have debts denominated in U.S. dollars, Japanese yen or Euro in addition to our debts denominated in Renminbi. We generate a significant amount of foreign currency revenues, including U.S. dollar, Japanese yen, Euro, Korean won, Hong Kong dollar, Singapore dollar, Australian dollar, and Thailand baht revenues, from ticket sales made in overseas offices. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings subject to the approval of SAFE. We have also designated certain personnel to manage the foreign currency risks through derivative financial products such as forward

Table of Contents

foreign exchange contracts and interest rate swaps. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2005, the notional amount of the outstanding interest rate swap agreements was approximately US\$661 million, compared to US\$437 million as of December 31, 2004. These interest rate swap agreements will expire between 2006 and 2016. In addition, we use currency forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2005, the notional amount of the outstanding currency forward contracts was approximately US\$92 million, compared to US\$226 million as of December 31, 2004. This decrease in the notional amount of the outstanding currency forward contracts was primarily due to the cancellation or early termination of certain currency forward contracts in 2005. These currency forward contracts will expire between 2007 and 2010.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by the People's Bank of China. The net exchange gains or losses are recognized and reflected in the income statement for the relevant year. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Primarily due to an appreciation of Renminbi against certain foreign currencies (including U.S. dollar, Japanese yen and Euro) following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, we recognized a net exchange gain of RMB415 million in 2005, compared to a net exchange loss of RMB32 million in 2004.

Taxation

Since we changed our registered address to Pudong district in Shanghai on July 1, 2001, we are subject to income tax at the rate of 15%. Our effective tax rate, however, may be higher than the rate of 15% because some of our subsidiaries were incorporated in jurisdictions where the applicable income tax rate is 33% rather than 15%. We had carried forward tax losses of approximately RMB2,330 million and RMB3,011 million as of December 31, 2004 and 2005, which can be used to set off against future taxable income and will expire between 2006 and 2010.

Inflation

In recent years, China has not experienced significant inflation. In 2005, inflation did not have a significant effect on our business. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.9% and 1.8% in 2004 and 2005, respectively. Although neither the inflation nor the deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

U.S. GAAP Reconciliation

Our audited consolidated financial statements are prepared in accordance with IFRS, which differs in certain material respects from U.S. GAAP. Note 43 to our audited consolidated financial statements provides a description of the principal differences between IFRS and U.S. GAAP as they relate to our company, and a reconciliation to U.S. GAAP of profit attributable to equity holders for the years ended December 31, 2003, 2004 and 2005 and owners' equity as of December 31, 2004 and 2005. Our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP to reflect the effect of the acquisitions of the aviation businesses of CEA Northwest and CEA Yunnan under common control for the relevant periods are set forth in Note 44 to our audited consolidated financial statements included in this annual report.

Table of Contents

New Pronouncements

IFRS

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 our operations, have been published that are mandatory for our accounting periods beginning on or after January 1, 2006 or later periods, but which we have 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 we do 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. We 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. We believe that this amendment should not have a significant impact on the classification of financial instruments, as we should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. We will apply this amendment from January 1, 2006.

U.S. GAAP

FAS 123

In December 2004, the FASB revised Statement No. 123, or FAS 123R. FAS 123R, *Share-Based Payment*, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. FAS 123R is effective for fiscal periods beginning after June 15, 2005. Our company is evaluating the transition provisions allowed by FAS 123R. Our company does not expect the adoption of FAS 123R to have a material impact on our company's financial position or operational results.

FAS 151

On November 24, 2004, the FASB issued Statement No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4, or FAS 151. FAS 151 requires that abnormal amounts of idle capacity and spoilage costs be excluded from the cost of inventory and expensed when incurred. The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. Our company does not expect the adoption of FAS 151 to have a material impact on our company's financial position or result of operation.

FAS 153

On December 15, 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Option No. 29, FAS 153. FAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Our company does not expect the adoption of FAS 153 to have a material impact on our company's financial position or results of operation.

SAB 107

On March 29, 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, *Share-Based Payment*, or SAB 107. This bulletin provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS 123 R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS 123 R, the modification of employee share options prior to adoption of FAS 123 R and disclosures in Management's Discussion and Analysis subsequent to adoption of FAS 123 R. SAB 107 will be effective when a registrant adopts FAS 123 R. Our company does not expect the adoption of SAB 107 to have a material impact on our

company's financial position or operation results.

FAS 154

In May 2005, FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, or FAS 154, which replaces APB Opinions No. 20 *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. FAS. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our company does not expect the adoption of FAS 154 to have a material impact on our financial position or operational results.

-49-

Table of Contents**Item 6. Directors, Senior Management and Employees.****A. Directors and Senior Management**

The following table sets forth certain information concerning our directors, executive officers and supervisors as of June 30, 2006. None of our directors, supervisors or members of our senior management was selected or chosen as a result of our arrangement or understanding with customers, suppliers or others. There is no family relationship between any director, supervisor or executive officer and any other director, supervisor or executive officer of our company.

Name	Age	Shares Owned	Position
Li Fenghua	56	5,000 A shares	Chairman of the Board of Directors
Luo Chaogeng ⁽¹⁾	56	5,000 A shares	Director and President
Cao Jianxiong	47	5,800 A shares	Director
Wan Mingwu	59	5,000 A shares	Director and Vice President
Zhong Xiong	60	2,800 A shares	Director
Luo Zhuping	53	5,800 A shares	Director and Company Secretary
Hu Honggao	52	0	Independent Non-executive Director
Peter Lok	69	0	Independent Non-executive Director
Wu Baiwang	63	0	Independent Non-executive Director
Zhou Ruijin	67	0	Independent Non-executive Director
Xie Rong	54	0	Independent Non-executive Director
Li Wenxin	57	6,000 A shares	Chairman of the Supervisory Committee
Ba Shengji	47	5,800 A shares	Supervisor
Yang Xingen	53	3,800 A shares	Supervisor
Yang Jie	36	3,000 A shares	Supervisor
Liu Jiashun	49	3,000 A shares	Supervisor
Wu Jiuhong	54	3,000 A shares	Vice President
Zhou Liguo	57	3,000 A shares	Vice President
Zhang Jianzhong	51	5,000 A shares	Vice President
Tong Guozhao	47	5,000 A shares	Vice President
Li Yangmin ⁽²⁾	43	3,000 A shares	Vice President

Luo Weide	50	3,000 A shares	Chief Financial Officer
-----------	----	----------------	-------------------------

(1) Mr. Luo served as a director of our company as of June 30, 2005.

(2) Mr. Li served as a vice president of our company as of October 28, 2005.

Directors and Executive Officers

Mr. Li Fenghua is the incumbent chairman of our board of director, president and deputy party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1968 and was deputy head, and subsequently became head, of the 26th Fleet of the CAAC from 1987 to 1992. From 1992 to 1996, Mr. Li served as vice-president, and then became president, of the Hubei branch of China Southern Airlines (Group).

-50-

Table of Contents

Since 1996, he became vice-president of China Southern Airlines Company Limited and vice-president of China Southern Airlines (Group). In 2000, Mr. Li became party secretary and vice-president of China Southern Airlines Company Limited. From October 2002 to September 2004, he served as the President of our company and vice-president of CEA Holding. In September 2004, he became president and deputy party secretary of CEA Holding. Mr. Li graduated from the China Civil Aviation Senior Aviation School and holds the title of First Class Pilot.

Mr. Luo Chaogeng is currently a director, as well as president and deputy party secretary of our company. Mr. Luo joined the civil aviation industry in 1970. Mr. Luo was a flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration Bureau from August 1970 to August 1972. From August 1972 to March 1989, he was the flight mechanic of the 8th Civil Aviation Flight Team. From March 1989 to August 1994, he was the deputy commissar, commissar and party secretary of the Xian Flight Team of China Northwest Airlines. From August 1994 to October 1997, he was the party secretary of the aircraft maintenance plant of China Northwest Airlines. From October 1997 to March 1997, he was the party secretary and deputy general manager of the aircraft maintenance base of China Northwest Airlines. From March 1997 to December 2000, he was the deputy director of the Civil Aviation Administration Bureau of China Northwest Airlines. From December 2000 to November 2001, Mr. Luo was the general manager of Yunnan Airlines and the director and deputy party secretary of Civil Aviation Administration Bureau of Yunan. From November 2001 to September 2001, he was the general manager and deputy party secretary of Yunnan Airlines. From September 2002 to September 2004, he has also been serving concurrently as the general manager of Yunan Airlines. From September 2004 to the present, he has been the party constitution member and vice president of China Airlines Group Company, President and deputy party secretary of China Airlines Corporation Limited. From 1998 to June 2001, Mr. Luo has been studying the postgraduate course for incumbent leading cadres in professional economics and management at the Central Party School of Shaanxi. Mr. Luo has obtained first class competency in flight mechanics.

Mr. Cao Jianxiong is currently a non-executive director of our company. Mr. Cao joined the civil aviation industry in 1982. From 1992, he served as president of Shanghai Eastern Airlines Development Company and in 1994 he became president of Eastern Airlines Futures Brokerage Company. In early 1996 he served as assistant president of our company. From 1997, he served as vice president and chief financial officer of our company. Since December 1999, he has served as vice president of EA Group. Since October 2002, he served as vice president of CEA Holding, and he also was the party secretary of China Eastern Air Northwest Company from December 2002 to September 2004. Mr. Cao graduated from the Civil Aviation Management Institute with a major in labour economics. Mr. Cao also received a Master's degree in global economics from Eastern China Normal University's Department of International Finance. Mr. Cao holds the title of Economist.

Mr. Wan Mingwu is currently an executive director as well as our company's party secretary and vice president. Mr. Wan joined the civil aviation industry in 1968. From 1983 to 1990 he was deputy section chief and section chief of the cadre section of the political department of the CAAC Shenyang Bureau. From 1990 to 1992 he was section chief of the personnel section of China Northern Airlines. From 1992 to 1995 he was deputy party secretary of China Northern Airlines and from 1995 to 2000 he was party secretary of China Northern Airlines. Since December 2000 he has been party secretary and vice president of our company. Mr. Wan graduated from Civil Aviation Mechanics Vocational School. Mr. Wan is a college graduate and holds the title of Senior Political Work Instructor.

Mr. Zhong Xiong is currently a non-executive director of our company. Mr. Zhong joined the civil aviation industry in 1970. From 1986 to 1988, he was vice president of Transportation Services Company of the CAAC Shanghai Bureau and was president of the sales and transportation department of China Eastern Airlines from 1988 to 1992. From 1992 to April 1995, he was vice president of our company. From May 1995 to April 2002, Mr. Zhong has been vice president of our company, and has become the Chairman of the

Table of Contents

workers union of CEA Holding since April 2002. He graduated in 1970 from the English Department of Liaoning Teacher's College and holds the title of Economist.

Mr. Luo Zhuping is an executive director of our company, the secretary of our board of director and the head of the secretariat of our board of director. Mr. Luo joined CEA in 1988. He was deputy chief and then chief of the enterprise management department of China Eastern Airlines from 1992 to 1997. He was deputy head of the share system office from 1993 to 1996. In 1997, he became the secretary of our board of director and the head of the secretariat of our board of director. He became a director of our company in June 2004. Mr. Luo graduated from the Faculty of Philosophy and the Faculty of Law of Anhui University in 1979 and 1985, respectively. In 1994, Mr. Luo received a Master's degree from the Economics Department of Eastern China Normal University, majoring in global economics. In 1998, he participated in the training programme for senior managers of large state-owned enterprises organised in the U.S.A. by the State Economic and Trade Commission and Morgan Stanley.

Mr. Hu Honggao is currently an independent non-executive director of our company. He is the vice-dean and professor of law at Fu Dan University School of Law as well as the head of the Civil and Commercial Law Research Centre of Fu Dan University, supervising doctoral students majoring in civil and commercial law at Fu Dan University. He is also a senior lawyer at the Shanghai Shen Yang Law Office. Mr. Hu is a managing director of China Commercial Law Research Society, a managing director of China Economic Law Research Society, a member of the Legislative Consultation Committee of the Shanghai Municipal Government, a member of the Legislative Profession Consultation Committee of the Shanghai Standing Committee of the People's Congress, vice-chairman of the Shanghai Economic Law Research Society and an arbitrator of the Shanghai Arbitration Committee.

Mr. Peter Lok is currently an independent non-executive director of our company. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England from 1968 to 1973. In 1982, he became assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became deputy director in 1988, and subsequently became director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996 and has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

Mr. Wu Baiwang is currently an independent non-executive director of our company. Mr. Wu joined the civil aviation industry in 1959 and was deputy fleet leader and subsequently became fleet leader of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From 1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. From September 1995 to 1998, he became president of China General Aviation Corporation. He was the party secretary and vice-president of Guangzhou Baiyun International Airport Group Company and the Chairman of the board of directors of Guangzhou Baiyun International Airport Company Limited from 1998 to September 2003. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

Mr. Zhou Ruijin is currently an independent non-executive director of our company. Mr. Zhou was deputy editor-in-chief and the East China regional director of the People's Daily. From 1988 to 1993 Mr. Zhou was party secretary and deputy editor-in-chief of the Liberation Daily. From April 1993 to 1996 he was deputy editor-in-chief of the People's Daily and from 1996 to 2000 he was deputy editor-in-chief and the East China regional director of the People's Daily. After retired, he became vice-chairman of the China Productivity Council and Chairman of the Shanghai Productivity Council. Mr. Zhou graduated from the journalism department of Fudan University in 1962.

Table of Contents

Mr. Xie Rong is currently an independent director of our company and a certified accountant in the People's Republic of China. Mr. Xie is the deputy head of Shanghai National Accounting Institute. He taught at the faculty of accounting of Shanghai University of Finance and Economics from December, 1985 to March, 1997, and had been an assistant professor, a professor, a doctorate-tutor and the deputy dean of the faculty. Mr. Xie was a partner of KPMG Huazhen from December, 1997 to October, 2002, and has, since October, 2002, been the deputy head of Shanghai National Accounting Institute. Mr. Xie graduated from Shanghai University of Finance and Economics and has a doctorate degree in Economics.

Mr. Wu Jihong is a vice president of our company. Mr. Wu joined the civil aviation industry in 1971. From 1968 to 1971 he served with the 60th division under the 20th army. From 1971 to 1973 he studied aviation machinery at the Civil Aviation College. From 1973 to 1981 he was with the 18th Fleet of the CAAC's 2nd General Fleet. From 1985 to 1988 he served as Communist Youth League secretary and deputy head of the political department of the CAAC's Jiangxi Bureau. From 1988 to 1995 he concurrently served as deputy party secretary and disciplinary committee secretary of the Cabin Service Department of China Eastern Airlines. From 1995 to 1997 he served as head of our company's publicity department. From 1997 to 2002, he served as party secretary and executive vice president of the Company's Jiangxi branch. He became a vice president of our company in April 2002. He also became the party secretary of CEA Northwest since September 2004. Mr. Wu has completed postgraduate studies and is a qualified senior political work instructor.

Mr. Zhou Liguang is currently a vice president of our company. He joined the civil aviation industry in 1981, and attended the Air Force Changchun First Reserve Flight School from 1966 to 1967 and the Harbin First Navigation School from 1967 to 1969. Mr. Zhou performed his military service with the 34th Division of the Air Force from 1969 to 1981, and served as squadron leader in the 5th Fleet of the Civil Aviation from 1984 to 1988. Mr. Zhou was deputy fleet leader of China Eastern Airlines' Shanghai Fleet from 1988 to 1992, and leader of the said fleet from 1992 to 1997. From 1997 to 2000, he served as general manager and deputy party secretary of our company's General Flight Department. In 2000 he became assistant president of our company, and from 2000 to 2003 he served as president and deputy party secretary of China Cargo Airlines Co., Ltd. Mr. Zhou was our company's chief economic official from December 2003 to April 2004. He became a vice president of our company since April 2004. Mr. Zhou received university education and holds the title of First Class Pilot.

Mr. Zhang Jianzhong is a vice president of our company. Mr. Zhang joined the civil aviation industry in 1982. From April 1982 to December 1987, he was an assistant of the Shanghai Civil Aviation Planning Bureau. From December 1987 to April 1990, he was the deputy director of the planning department of Shanghai Hongqiao International Airport. From April 1990 to January 1996, he was the director of the planning department of China Eastern Airlines. From January 1996 to April 1999, he was the manager of the sales and marketing department of our company. From April 1999 to April 2003, he was the Assistant to the President of our company. From September 2000 to December 2001, he served concurrently as the director of the office of strategic study of our company. From December 2001 to May 2003, he served concurrently as the general manager of the computer information centre of our company. From April 2003 to June 2004, he was the chief economic official of our company. From May 2003 to June 2004, he served concurrently as the general manager of the sales and marketing department of our company. Since June 2004, he has been a vice president of our company. Mr. Zhang graduated from the Faculty of Mechanical Engineering of Zhejiang University and Professional Study in Economics and Management at Fudan University, from which he obtained a master's degree.

Mr. Tong Guozhao is a vice president of our company. Mr. Tong joined the civil aviation industry in 1980. From January 1980 to May 1992, Mr. Tong had been the deputy pilot, chief pilot and captain respectively of the flight team of Urumqi Civil Aviation Bureau. From May 1992 to April 1997, he had been the captain, sub-team leader, deputy squadron leader and squadron leader of the Shanghai Flight Team of China Eastern Airlines. From April 1997 to May 1998, he was a vice president of the Shanghai Flight Team of

Table of Contents

our company. From May 1998 to March 2001, he was the president of the Safety Monitoring Department of our company. From March 2001 to January 2004, he was the president of the Anhui branch company of our company. From January 2004 to September 2004, he was the president of the China Cargo Airlines Co., Ltd. and deputy party secretary. From September 2004 to April 2005, he was the president of our company cum president of the Operation Control Centre. Since April 2005, he has been a vice president of our company. Mr. Tong graduated from the Civil Aviation School and Anhui School of Business and Administration. He received a master degree in business administration and holds the title of Second Class Pilot.

Mr. Li Yangmin is a vice president of our company. Mr. Li joined the civil aviation industry in 1985. From July 1985 to October 1996, he was the deputy head of the aircraft maintenance workshop, head of technology office and secretary of the workshop branch of Northwest Company. From October 1996 to June 2002, he was the deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company. From June 2002 to March 2004, he was the general manager of the aircraft maintenance base of CEA Northwest. From March 2004 to October 2005, he was the vice president and a member of the standing committee to the party committee of CEA Northwest. Since October 2005, he has been deputy general manager of our company. Mr. Li graduated from China Civil Aviation Academy. He is a qualified senior engineer.

Mr. Luo Weide is our company's chief financial officer. In 1976 Mr. Luo began his military service at the Air Force in Liuan Airport. From 1979 to 1991 he successively served as department head and deputy head of the Putuo branch of the Shanghai Municipal Tax Bureau. From 1991 to 1993 he concurrently served as head of the finance bureau and the state asset bureau of Putuo District, Shanghai. From 1993 to 1998 he successively served as deputy chief accountant, chief accountant and executive deputy president of Shanghai Jinqiao (Group) Co., Ltd. From 1998 to 2000, he was vice president of Shanghai Pudong Development (Group) Co., Ltd. and chairman of the board and president of Pudong Finance Company. Since 2000 he has been chief financial officer of our company. Mr. Luo graduated from the Sino-European International Business School in 1999 with a Master's degree in business administration. He holds the titles of Senior Accountant and Senior Economist.

Supervisory Committee

As required by the PRC Company Law and our articles of association, our company has a supervisory committee, or the Supervisory Committee, whose primary duty is the supervision of our senior management, including our board of directors, managers and senior officers. The Supervisory Committee consists of five supervisors.

Mr. Li Wenxin is currently Chairman of our company's supervisory committee. Mr. Li joined the civil aviation industry in 1970. From 1992 to 1995 he was secretary of the disciplinary committee of China General Aviation Company. From 1995 to 1996 he was deputy party secretary of China General Aviation Corporation. From 1996 to 1998 he was deputy president of China General Aviation Corporation and from February 1998 to June 2000, he assumed the post of party secretary and executive deputy president of the Shanxi branch of our company. From June 2000 to September 2002, he served as deputy party secretary and secretary of the disciplinary committee of CEA Holding. Since October 2002, he served as party secretary and vice president of CEA Holding. He has been the Chairman of the supervisory committee of our company since June 2000. Mr. Li received university education and is a qualified Senior Political Work Instructor.

Mr. Ba Shengji is currently a supervisor. Mr. Ba joined the civil aviation industry in 1978. From 1980, Mr. Ba was an accountant at the Department of Finance of the CAAC Shanghai Bureau. From 1988, he served as the section head of the Department of Finance of China Eastern Airlines. In 1993, Mr. Ba became the deputy head of the Department of Finance of China Eastern Airlines. In March 1997, Mr. Ba became the chief officer of the auditing office of our company. From December 1997 to September 2002, he served as the head of EA Group's auditing department. Since October 2002, he became the head of CEA Holding's

Table of Contents

auditing department. Since January 2003, he concurrently served as chief of CEA Holding's disciplinary committee's administrative office. Mr. Ba received university education and is a qualified auditor.

Mr. Yang Xingen is currently a supervisor. Mr. Yang was the deputy political committee member of the 1st flying battalion and political committee member of the 2nd battalion of 105th Regiment, 35th Division from July 1980 to July 1986. From July 1986 to October 1997, he was the party branch secretary and manager of China Eastern Airlines Advertisement Service Company respectively. From October 1997 to April 2000, he was the party deputy secretary, secretary for the disciplinary committee and political director of the Shanghai flying squadron of our company. From April 2000 to August 2002, he was the deputy secretary for the disciplinary committee cum director of the office for discipline committee and director of the supervision office. From August 2002 to now, he has been the deputy secretary for the disciplinary committee of our company. Mr. Yang has been educated to the tertiary level. He was graduated from the faculty of mechanics of the Second Aviation Mechanics School of the air force.

Ms. Yang Jie is currently a supervisor. Ms. Yang joined the civil aviation industry in 1992. From 1996 to 1998 she was electronic technology supervisor of the technology office and Communist Youth League secretary of the overhaul department at the aircraft maintenance base of our company. From 1998 to September 2000 she was Communist Youth League deputy secretary of the aircraft maintenance base of our company. She was the deputy secretary of our company's Communist Youth League from September 2000 to July 2002, and the secretary of our company's Communist Youth League from August 2002 to January 2003. Since January 2003, she has been the secretary of the Communist Youth League of CEA Holding, as well as the secretary of the Communist Youth League of our company. Ms. Yang graduated with a major in aviation electronics from the China Civil Aviation Academy and a major in Business Administration from Sunny Management Academy at Donghua University and she received a master degree in Business Administration. She is also a qualified engineer.

Mr. Liu Jiashun is currently a supervisor. From 1993 to 1999 Mr. Liu was party secretary, deputy president and secretary of the disciplinary committee secretary of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. From 1997 to 1999 he was also in charge of fuel supply engineering at Haikou's Meilan Airport and served as director of Meilan Airport Co., Ltd. and vice chairman of the board and president of Meilan Industrial Co., Ltd. From 1999 to 2000 he was deputy party secretary of China Aviation Fuel East China Company and he is currently deputy party secretary and secretary of the disciplinary committee of the East China branch of China Aviation Fuel Company. Mr. Liu is a former graduate student and has qualifications as a political work instructor.

B. Compensation

The aggregate amount of cash compensation paid by us to our directors, supervisors and the senior management during 2005 for services performed as directors, supervisors and officers or employees of our company was approximately RMB2,244,000. In addition, directors and supervisors who are also officers or employees of our company receive certain other in-kind benefits which are provided to all of our employees. Our company does not have any bonus or profit sharing plan or any stock option plan.

C. Board Practices

All directors and supervisors serve a term of three years or until such later date as their successors are elected or appointed. The directors and supervisors may serve consecutive terms. Two of the supervisors are employee representatives appointed by our employees, and the rest are appointed by the shareholders. The following table sets forth the number of years our directors, executive officers and supervisors have held their position and the expiration of their current term.

Table of Contents

Name	Held Position Since	Expiration of Term
Li Fenghua	June 20, 2003	June 18, 2007
Luo Chaogeng	June 30, 2005	June 18, 2007
Wan Mingwu	June 30, 2001	June 18, 2007
Cao Jianxiong	June 30, 2001	June 18, 2007
Zhong Xiong	June 30, 2001	June 18, 2007
Luo Zhuping	June 18, 2004	June 18, 2007
Hu Honggao	June 30, 2001	June 18, 2007
Peter Lok	June 30, 2001	June 18, 2007
Wu Baiwang	June 30, 2001	June 18, 2007
Zhou Ruijin	June 30, 2001	June 18, 2007
Xie Rong	June 20, 2003	June 18, 2007
Li Wenxin	June 30, 2001	June 18, 2007
Ba Shengji	June 30, 2001	June 18, 2007
Yang Xingen	June 18, 2004	June 18, 2007
Yang Jie	June 30, 2001	June 18, 2007
Liu Jiashun	June 30, 2001	June 18, 2007
Wu Jiuhong	April 4, 2002	June 18, 2007
Zhou Ligu	April 5, 2004	June 18, 2007
Zhang Jianzhong	June 18, 2004	June 18, 2007
Tang Guozhao	April 1, 2005	June 18, 2007
Li Yangmin	October 28, 2005	June 18, 2007
Luo Weide	June 30, 2001	June 18, 2007

None of our directors, supervisors or members of our senior management has entered into any agreement or reached any understanding with us requiring our company to pay any benefits as a result of termination of their services.

Our board of directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. The audit committee currently consists of Mr. Xie Rong, an independent non-executive

director and the chairman of the audit committee, Mr. Hu Honggao, an independent non-executive director of our company, and Mr. Wu Baiwang, an independent non-executive director of our company. The audit committee is authorized to, among other things, examine our internal control system and review auditing procedures and financial reports with our auditors. Subject to the approval of the shareholders' meeting, the audit committee of our company is also directly responsible for the appointment, compensation, retention and oversight of our outside auditors, including resolving disagreements between management and the auditor regarding financial reporting. The outside auditors report directly to the audit committee. The audit committee holds at least four meetings each year. The audit committee has established procedures for the receipt, retention and treatment of complaints received by our company regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The audit committee has the authority to engage independent counsel and other advisors, as it determines necessary to carry out its duties. Our company provides appropriate funding, as determined by the audit committee, for payment of compensation to the outside auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

Our remuneration and review committee, established by our board of directors in April 2002, consists of Mr. Zhou Ruijin, an independent non-executive director and the chairman of the remuneration and review

Table of Contents

committee, Mr. Hu Hongaao, an independent non-executive director and Mr. Peter Lok, an independent non-executive director. The remuneration and review committee is authorized to review the performance of our directors, supervisors and management as well as determine their annual compensation level. The remuneration and review committee shall submit to our board of directors or shareholders meeting for approval compensation plans and oversee the implementation of approved compensation plans. The remuneration and review committee may consult financial, legal or other outside professional firms in carrying out its duties. The remuneration and review committee shall meet once year, within twenty days after the announcement of annual results.

D. Employees

Through arrangements with CEA Holding and others, we provide certain benefits to our employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Our company does not have any bonus or profit sharing plan or any stock option plan. See Notes 33 and 34 to our audited consolidated financial statements. Our employees are members of a labor association which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association. The table below sets forth the number of our employees as of December 31, 2003, 2004 and 2005, respectively:

		As of December 31,	
	2003	2004	2005
Pilots	1,516	1,699	2,154
Flight attendants	1,817	2,732	3,752
Maintenance personal	2,696	3,283	4,480
Sales and marketing	2,172	2,546	3,658
Other	8,234	10,557	15,257
Total	16,435	20,817	29,301

E. Share Ownership

See Item 6.A and Item 6.B above.

Item 7. Major Shareholders and Related Party Transactions.**A. Major Shareholders**

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2005 by all persons who were known to us to be the beneficial owners of 5% or more of our capital stock:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Class	Percent of Total Shares
Domestic Shares	CEA Holding	3,000,000,000	90.91%	61.64%
H Shares	HKSCC Nominees Limited ⁽¹⁾	1,487,931,163	94.96%	30.57%

(1) As custodian of the Depository for American Depository Shares representing H Shares.

CEA Holding has held 61.64% of our issued and outstanding capital stock since its establishment in October 2002, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our company.

-57-

Table of Contents

As of December 31, 2005 and June 30, 2006, there were 1,566,950,000 H shares issued and outstanding. As of December 31, 2005 and June 30, 2006, there were, respectively, 39 and 36 registered holders of American depositary receipts evidencing 1,495,400 and 1,542,960 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

Our company is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of China State-owned Assets Supervisions and Administration Commission, or CSASAC. CEA Holding's shareholding in our company is in the form of ordinary domestic shares, through which it, under the supervision of the CSASAC, enjoys the shareholders' rights and benefits on behalf of the Chinese government.

B. Related Party Transactions

Relationship with CEA Holding and Associated Companies

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 39 to our audited consolidated financial statements.

(A) De-merger Agreement

EA Group and our company entered into a de-merger agreement on April 14, 1995, or the De-merger Agreement, for the purpose of defining and allocating the assets and liabilities between EA Group and our company. To give effect to the intent and provisions of the De-merger Agreement, EA Group and our company have entered into a Supplemental Agreement to the De-merger Agreement, dated December 5, 1996, whereby the parties agreed to indemnify each other in respect of all claims arising from or in respect of the assets and liabilities which they have respectively assumed pursuant to the restructuring and by reference to the division of assets and liabilities determined as of January 1, 1994. After the establishment of CEA Holding in October 2002, CEA Holding has assumed the rights and liabilities of EA Group under the De-merger Agreement.

(B) Acquisition of Assets from CEA Holding

We have acquired from CEA certain assets and liabilities from CEA Holding relating to the aviation businesses of CEA Northwest and CEA Yunnan. See the section headed "Item 4. Information on the Company History and Development of the Company".

(C) Related Business Transactions

As our company and EA Group and its subsidiaries were a single group prior to the restructuring in 2002, certain arrangements among us have continued after the restructuring and the establishment of CEA Holding. Each of these arrangements is non-exclusive, although we do not currently intend to enter into any equivalent contracts with third parties.

(i) China Eastern Aviation Import and Export Corporation, or CEAIEC, a 55% owned subsidiary of CEA Holding.

Our company and CEAIEC have entered into an import/export agency agreement, dated May 12, 2005, to supercede our agreement, dated January 7, 1997, regarding the import and export of aircraft-related accessories, machinery and equipment for a term of three years commencing from July 1, 1999, subject to renewal. For the year ended December 31, 2005, the amounts paid by us to CEAIEC for the import and export of aircraft-related accessories, machinery and equipment were approximately RMB7,228 million,

-58-

Table of Contents

inclusive of handling charges of 0.1% to 2% above the contract prices paid to CEAIEC which were approximately RMB41 million in total.

We have certain balances with CEAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 39(b) to our audited consolidated financial statements for more details.

(ii) Eastern Aviation Advertising Service Co., Ltd., or Eastern Advertising, a 55% owned subsidiary of CEA Holding.

Our company and Eastern Advertising have entered into an advertising service agreement, dated May 12, 2005, to supersede our agreement, dated December 30, 1996, regarding the provision of advertising services for a term of three years commencing from July 1, 2005, subject to renewal. For the year ended December 31, 2005, the amounts paid by us to Eastern Advertising for advertising services were approximately RMB9 million.

(iii) China Eastern Air Catering Investment Co. Ltd., or CEA Catering, a 55% subsidiary of CEA Holding. The remaining 45% is owned by our company.

On May 12, 2005, our company entered into certain catering service agreements with a number of subsidiaries of CEA Catering (including Shanghai Eastern Air Catering Co., Ltd) regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our company's daily airline operations and civil aviation business. For the year ended December 31, 2005, the amounts paid by us to those subsidiaries of CEA Catering for the supply of in-flight meals and other services were approximately RMB232 million.

(iv) Eastern Air Group Finance Co. Ltd., or Eastern Finance, which is 75% owned and controlled by CEA Holding and other subsidiaries of CEA Holding.

Our company and Eastern Finance have entered into a financial services agreement, dated May 12, 2005, to supersede our agreement with Eastern Finance, dated January 8, 1997, regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references for a term of three years commencing from July 1, 2005, subject to renewal. Pursuant to this agreement, we may place deposits with, and obtain loans from, Eastern Finance. We had short-term deposits placed with Eastern Finance as of December 31, 2005 amounting to RMB475 million, which paid interest at 0.7% per annum. In addition, our company had short-term loans of RMB214 million from Eastern Finance. During the year ended December 31, 2005, the weighted average interest rate on the loan was 4.5% per annum.

Pursuant to the financial services agreement, Eastern Finance shall deposit all moneys deposited by our company under the agreement with commercial bank(s) in China, including, for example, Industrial and Commercial Bank of China, Bank of China, China Construction Bank, Bank of Agriculture and Bank of Communications. The Eastern Finance has also undertaken under the financial services agreement that all outstanding loans it provides to CEA Holding and its subsidiaries (other than our company) will not at any time and from time to time exceed the aggregate amount of its equity capital, surplus reserves and deposits received from other parties.

(v) TravelSky Technology Ltd., which is 33% owned by CEA Holding.

We pay ticket reservation service charges to TravelSky, which is 33% owned by CEA Holding, in connection with our use of its computer reservation system. For the year ended December 31, 2005, we paid ticket reservation service charges to TravelSky of approximately RMB125 million.

Table of Contents

(vi) Shanghai Eastern Aviation Equipment Manufacturing Corporation, or SEAEMC, a wholly-owned subsidiary of CEA Holding.

Our company and SEAEMC have entered into an advertising service agreement, dated May 12, 2005, to supercede our agreement dated, December 31, 1996, regarding the provision of comprehensive services in relation to maintenance, repair and overhaul of aircraft and aviation equipment, and procurement of related equipment and materials required in our company's daily operations for a term of three years commencing from July 1, 2005, subject to renewal. SEAEMC was established in 1996. SEAEMC's predecessor was Shanghai Civil Aviation Maintenance and Engineering Company. For the year ended December 31, 2005, the amounts paid by us to SEAEMC for the maintenance and related services were approximately RMB1 million. In addition, we also paid RMB9 million and RMB5 million to SEAEMC for the purchase by our company of certain aviation equipment from SEAEMC and the lease of buildings and equipment, respectively, in 2005.

(vii) Ticket Sales

On May 12, 2005, our company entered into certain sales agency services agreements with several subsidiaries of CEA Holdings regarding the sales of our air tickets by such subsidiaries of CEA Holding as our sales agents and the provision of complementary services for a term of three years commencing from July 1, 2005, subject to renewal. Under such agreements, the sales agents charge commissions at rates with reference to those prescribed by the CAAC and the International Aviation Transportation Association, as determined following arm's length negotiations. Such commissions are payable monthly in arrears. The parties will perform an annual review of the then prevailing commission rate before the 31st of December in each calendar year, and agree on any required adjustments to such commission rate in respect of the next calendar year. For the year ended December 31, 2005, the aggregate amount of commissions we paid to those sales agents for the sales agency services was approximately RMB81 million.

(C) Property Leases

Our company and EA Group had entered into an office lease agreement dated January 7, 1997 in respect of office premises located at 2550 Hong Qiao Road, Shanghai, China. The lease term is one year and renewable by the parties, subject to mutual agreement with respect to rental terms. The total rental payment is approximately RMB158,342 per month. In addition, our company and EA Group had entered into a staff dormitory lease agreement dated December 31, 1996, pursuant to which EA Group had agreed to enter into lease arrangements with our employees for dormitories in Shanghai, Anhui Province, Shandong Province and Jiangxi Province. The term of the lease and the rental payments are set in accordance with Chinese regulations and the rate prescribed by the Shanghai Municipal Government. CEA Holding has assumed EA Group's rights and liabilities under those lease agreements after its establishment.

On May 12, 2005, we entered into a property leasing agreement with CEA Holding, CEA Northwest and CEA Yunnan for a term of three years, subject to renewal of another three years. Pursuant to this property leasing agreement, we leased from CEA Holding, for our use in daily airlines and other business operations: (i) a maximum of altogether 33 land properties owned by CEA Holding through, and registered in the name of, CEA Northwest, covering an aggregate site area of approximately 692,539 square meters located primarily in Xi'an, Xianyang and Yongdeng, together with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square metres; and (ii) a maximum of altogether seven land properties owned by CEA Holding through, and registered in the name of, CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 81 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 457,722 square meters. Under the property leasing agreement, our company shall pay annual rentals in an aggregate amount of approximately RMB55 million to CEA Holding. The rentals are payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates

Table of Contents

published by the relevant local PRC authorities. During 2005, we have paid a rental of RMB 28 million under this property leasing agreement.

(D) Aircraft Leases

During the year ended December 31, 2005, our company received from CEA Wuhan RMB41 million under an aircraft operating lease arrangement relating to two B737-300 aircraft.

(E) Guarantee by CEA Holding

As at December 31, 2005, unsecured long-term bank loans of our company with aggregate amount of RMB2,123 million are guaranteed by CEA Holding (see Note 29 to our audited consolidated financial statements.)

C. Interests of Experts & Counsel

Not applicable.

Item 8. Financial Information.

A. Financial Statements

You should read Item 18-Financial Statements for information regarding our audited consolidated financial statements and other financial information.

B. Legal Proceedings

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations. In 2005, family members of certain victims in the air crash of an aircraft of CEA Yunnan that occurred on November 21, 2004 in Baotou, Neimougu, the PRC, instituted a legal action against us in a court in the United States to seek unspecified damages. We have engaged legal counsel to vigorously defend the proceedings. The proceedings are still at an early stage and we believe, based on professional advice, it is unlikely that there will be any material adverse effect on our financial position. We are not aware of any other material proceedings currently pending against our company.

C. Dividends and Dividend Policy

For the fiscal year ended December 31, 2003, our board of directors recommended no dividend. For the fiscal year ended December 31, 2004, our shareholder s meeting approved the payment of a cash dividend of RMB0.02 per share. For the fiscal year ended December 31, 2005, our board of directors recommended no dividend. The declaration and payment of dividends for years following 2005 will depend upon our financial results, our shareholders interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders, and other factors our directors may deem relevant. Holders of our H shares will receive the equivalent amount of cash dividend declared in Renminbi, if any, based on the foreign exchange conversion rate published by the People s Bank of China, or PBOC, on the date of the distribution of the cash dividend.

D. Significant Post Financial Statements Events

For information relating to the increase of our equity interest in CEA Wuhan, see section headed Item 4. Information on the Company History and Development of the Company .

Table of Contents

In addition, since January 1, 2006, we have contracted to purchase 16 Boeing 737 NG series aircraft (with engines) and 30 Airbus A320 series aircraft(with engines), for delivery over the next few years.

Item 9. The Offer and Listing.

The principal trading market for our H shares is the Hong Kong Stock Exchange. The ADSs, each representing 100 H shares, have been issued by The Bank of New York as the Depositary and are listed on the New York Stock Exchange under the symbol CEA . Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H shares or ADSs.

The table below sets forth certain market information relating to our H shares and ADSs in respect of the period from 2001 to June 30, 2006.

	Price per H Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
2001	1.41	0.66	17.75	8.75
2002	1.48	0.80	18.50	11.00
2003	1.39	0.88	18.33	9.6
First Quarter 2004	1.84	1.28	23.22	17.03
Second Quarter 2004	1.64	1.28	21.27	16.74
Third Quarter 2004	1.65	1.49	20.90	18.81
Fourth Quarter 2004	1.79	1.40	23.30	18.20
2004	1.85	1.28	23.70	16.60
First Quarter 2005	1.70	1.34	22.48	17.23
Second Quarter 2005	1.51	1.28	19.30	16.56
Third Quarter 2005	1.42	1.18	18.65	15.14
Fourth Quarter 2005	1.30	0.95	16.45	12.52
December 2005	1.30	1.21	16.45	15.61
January 2006	1.33	1.19	16.96	15.50
February 2006	1.38	1.20	17.18	15.64
March 2006	1.44	1.24	18.24	16.00
April 2006	1.29	1.12	16.88	14.80
May 2006	1.18	1.08	15.15	13.98
June 2006	1.16	1.04	14.68	13.10

As of December 31, 2005 and June 30, 2006, there were 1,566,950,000 H shares issued and outstanding. As of December 31, 2005 and June 30, 2006, there were, respectively, 39 and 36 registered holders of American depositary receipts evidencing 1,495,400 and 1,542,960 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York. A total of 3,300,000,000 domestic ordinary shares were also outstanding as of June 30, 2006.

Table of Contents

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The section entitled Description of Capital Stock contained in our registration statement on Form F-1 (File No. 333-6260) filed with the Securities and Exchange Commission is hereby incorporated by reference.

C. Material Contracts

For a summary of any material contract entered into by our company or any of its consolidated subsidiaries outside of the ordinary course of business during the last two years, see Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects and Item 7. Major shareholders and Related Party Transactions.

In addition, we entered into the following agreements to purchase aircraft, which are filed with this annual report as exhibits:

an aircraft purchase agreement, dated as of October 9, 2004, between our company and Airbus SAS regarding the purchase of 20 Airbus A330-300 aircraft;

an amendment to an aircraft purchase agreement, dated as of April 21, 2005, between our company and Airbus SAS regarding the purchase of 15 Airbus A320 series aircraft;

an aircraft purchase agreement, dated as of August 8, 2005, between our company and The Boeing Company regarding the purchase of 15 Boeing 787 aircraft (with engines);

an aircraft purchase agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our company and The Boeing Company regarding the purchase of 20 Boeing 737 NG series aircraft (with engines); and

an amendment to an aircraft purchase agreement, dated as of June 26, 2006, between our company and Airbus SAS regarding the purchase of 30 Airbus A320 aircraft (with engines).

D. Exchange Controls

Renminbi currently is not a freely convertible currency. SAFE, under the authority of PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises, or FIEs, subject to SAFE approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange rate, the Chinese government announced the establishment of an inter-bank foreign exchange market, the China Foreign Exchange Trading System, or CFETS, and the phasing out of the swap centers. Effective December 1, 1998, the swap centers were abolished by the Chinese government.

Table of Contents

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a significant appreciation of Renminbi against the U.S. dollar. While the international reaction to Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar.

In general, under existing foreign exchange regulations, domestic enterprises operating in China must price and sell their goods and services in China in Renminbi. Any foreign exchange received by such enterprises must be sold to authorized foreign exchange banks in China. A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign currency transactions, but not under the capital account, which includes foreign direct investment, unless the prior approval of the SAFE, is obtained. As a foreign investment enterprise approved by the MOC, we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

E. Taxation

The taxation of income and capital gains of holders of H shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

Taxation Hong Kong

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax advisor regarding the tax consequences of an investment in the ordinary shares and ADSs. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change.

Table of Contents

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends received by the recipient.

Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 17.5% on corporations and on individuals at a maximum rate of 16.0% with effect from April 1, 2004. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK\$1 per HK\$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK\$2 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law, in which case only a fixed duty of HK\$5 is payable on the transfer. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depository or for the account of the depository does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The ordinary shares are Hong Kong property under Hong Kong law, and accordingly such ordinary shares may be subject to estate duty on the death of the beneficial owner of the ordinary shares (regardless of the place of the owner's residence, citizenship or domicile). Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty has, in the past, been adjusted on a fairly regular basis. No estate duty is payable when the aggregate value of the dutiable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies when the aggregate value of the dutiable estate exceeds HK\$10.5 million.

Estate duty was abolished effective February 11, 2006. Estates of persons who passed away on or after February 11, 2006 are not subject to estate duty. The estate duty chargeable in respect of deaths occurring between the period from July 15, 2005 to February 10, 2006 with the taxable estate value exceeding HK\$7.5 million is reduced to a nominal duty of HK\$100.

Taxation China

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of the H Shares and ADSs. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of China as in effect on the

Table of Contents

date of this annual report, as well as on the U.S.-China Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

In general, and taking into account the earlier assumptions, for Chinese tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the H Shares represented by those ADSs, and exchanges of H Shares for ADSs, and ADSs for H Shares, will not be subject to Chinese tax.

Taxation of Dividends by China

Individual Investors. The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, the Chinese State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, or the Tax Notice, which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

Amendments to the individual Income Tax Law of the PRC, or the Amendments, were promulgated on October 31, 1993 and became effective on January 1, 1994. The Amendments provide that any provisions of prior administrative regulations concerning individual income tax which contradict the Amendments are superseded by the Amendments. The Amendments and the amended Individual Income Tax Law can be interpreted to mean that foreign individuals are subject to a withholding tax on dividends received from a Chinese company at a rate of 20% unless such income is specifically exempted from individual income tax by the financial authority of the State Council. However, in a letter dated July 26, 1994 to the State Commission for Restructuring the Economic System, the State Securities Commission and the China Securities Regulatory Commission, the State Tax Bureau confirmed the temporary tax exemption set forth in the Tax Notice for dividends received from a Chinese company listed overseas. In the event this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, the Amendments, and the Individual Income Tax law of China. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Enterprises. The Provisional Regulations provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in China receiving dividends paid on a Chinese company's Overseas Shares temporarily will not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced or eliminated pursuant to an applicable double taxation treaty.

Tax Treaties. Non-Chinese investors resident in countries which have entered into double-taxation treaties with China may be entitled to a reduction of the withholding tax imposed on the payment of dividends to non-Chinese investors of our company. China currently has double-taxation treaties with a number of other countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under the U.S.-China Treaty, China may tax a dividend paid by our company to a U.S. holder of H shares or ADSs only up to a maximum of 10% of the gross amount of such dividend.

Table of Contents

Taxation of Capital Gains by China

The Tax Notice provides that gains realized upon the sale of Overseas Shares are not subject to taxes on capital gains. Although the Ministry of Finance has been empowered to collect a tax of 20% on gains derived from the sale of equity shares, a joint notice issued in March 1996 by the Ministry of Finance and the State Tax Bureau indicated that no capital gains tax would be imposed on gains from the sale of shares until the Ministry of Finance and the State Tax Bureau promulgate new rules. Therefore, during 1996 to 2001, holders of H Shares or ADSs were not subject to taxation on gains realized upon the sale or disposition of such shares. After 2001, holders of H Shares or ADSs could become subject to a 20% capital gains tax, unless reduced or eliminated pursuant to an applicable double taxation treaty.

Under the U.S.-China Treaty, China may only tax gains from the sale or disposition by a U.S. holder of H shares or ADSs representing an interest in the company of 25% or more.

Chinese Stamp Tax

Chinese stamp tax imposed on the transfer of shares of Chinese publicly traded companies under the Share System Tax Regulations should not apply to the acquisition or disposition by non-Chinese investors of H Shares or ADSs outside of China by virtue of the Provisional Regulations of The People's Republic of China Concerning Stamp Tax, which provides that Chinese stamp tax is imposed only on documents executed or received within China or that should be considered as having been executed or received within China.

United States Federal Income Taxation.

United States Federal Income Taxation

This section describes the material United States federal income tax consequences of the ownership and disposition of H shares or ADSs. This section applies to you only if you are a U.S. holder, as defined below, and you hold your H shares or ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our voting stock;
- a person that holds H shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws

Table of Contents

are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of H shares or ADSs and you are:
a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of H shares or ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H shares represented by those ADRs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to the United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the H shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements.

The dividend is taxable to you when you, in the case of H shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the spot Hong Kong dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated as a non-taxable return of capital to the extent of your basis in the H shares or ADSs and thereafter as capital gain. Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2007 will, depending on your

Table of Contents

circumstances, be passive or general income which, in either case, is treated separately from other types of income purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your H shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your H shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the property is held more than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We believe that H shares or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our H shares or ADSs:

at least 75% of our gross income for the taxable year is passive income; or

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

any gain you realize on the sale or other disposition of your H shares or ADSs; and

any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the H shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the H shares or ADSs).

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the H shares or ADSs;

the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;

the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and

Table of Contents

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

If you own H shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your H shares or ADSs at the end of the taxable year over your adjusted basis in your H shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income on long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your H shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the H shares or ADSs will be adjusted to reflect any such income or loss amounts.

In addition, notwithstanding any election you make with regard to the H shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your H shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your H shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your H shares or ADSs, you will be treated as having a new holding period in your H shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own H shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

The SEC allows us to incorporate by reference the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

Table of Contents**I. Subsidiary Information**

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.**Interest Rate Risk**

Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2005, the notional amount of the outstanding interest rate swap agreements was approximately US\$661 million. These interest rate swap agreements will expire between 2006 and 2016. The carrying amounts, the estimated fair value and the effect as a result of the change of the average interest rate on our long-term and other loans as of December 31, 2005 are set forth as follows:

	RMB 000
Carrying amounts	12,611,920
Estimated fair value	12,044,271
Decrease in the estimated fair value resulting from an increase of the average interest rate by 1%	295,917
Increase in the estimated fair value resulting from a decrease of the average interest rate by 1%	267,635

Foreign Currency Exchange Rate Risk

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in US dollars, Japanese yen or Euro. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. These currency forward contracts will expire between 2007 and 2010.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by PBOC. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, Renminbi has appreciated significantly against certain foreign currencies, including U.S. dollar, Japanese yen and Euro. The following table shows the effect on our profit and loss account as a result of the impact on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2005 as a consequence of a fluctuation in value of the following major foreign currencies.

	Profit and Loss Account Decrease/increase by RMB 000
US dollar appreciates/ (depreciates) by 1%	21,552
Japanese yen appreciates/ (depreciates) by 1%	6,699
Euro appreciates/ (depreciates) by 1%	240

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

Table of Contents

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Material Modifications to the Rights of Security Holders

Our shareholders have approved certain amendments to our articles of association at the annual general meeting for the year of 2004 held on June 30, 2005 in Shanghai, China. Set forth below is a summary of those amendments that involve modification to the rights of our shareholders.

Amendments to Article 52. Pursuant to the amendments, a controlling shareholder or an actual controlling person of our company owes fiduciary duties to our public shareholders. A controlling shareholder may not: (1) prejudice the legal rights and interests of our public shareholders by means of, among other things, any connected transaction, distribution of profits, restructuring of assets, external investment, appropriation of funds or loan guarantee; or (2) otherwise prejudice the interests and rights of our public shareholders by abusing its controlling position.

Amendments to Article 60. Pursuant to the amendments, a proposal for consideration at a shareholders' general meeting must meet the following requirements: (1) its content does not contravene the laws, administrative regulations and the articles of association and falls within the scope of the duties and responsibilities of the shareholders' general meeting; (2) there is definite topic(s) and specific matter(s) for resolution; and (3) it is submitted or delivered to the board of directors in writing. The board of directors shall examine each proposal for consideration at a shareholders' general meeting in the best interests of our company and shareholders.

New Article 64(A). This new article provides that the board of directors shall determine the record date with respect to a shareholders' general meeting. The shareholders recorded on our register of shareholders as of the record date are entitled to attend the relevant shareholders' general meeting. The shareholders who intend to attend a shareholders' general meeting must properly register by such date and at such venue as designated in the relevant notice.

Amendments to Article 72. Pursuant to the amendments, the shareholders' general meeting shall take a vote on each of the matters for its consideration.

Amendments to Article 73. Pursuant to the amendments, our company shall increase the attendance of public shareholders at the shareholders' general meetings by various means, including the use of modern information technologies (for example, online voting facilities), provided that (1) it is permissible under all applicable laws, rules and administrative regulations and/or is acceptable to relevant regulatory authorities; and (2) the legality and validity of a shareholders' general meeting is assured. Moreover, the board of directors, independent directors and qualified shareholders may solicit proxies from shareholders to vote at a shareholders' general meeting. Adequate information should be furnished to the shareholders whose proxies are solicited. Information so furnished must be previously published information which remains accurate and is not misleading at the time it is quoted.

New Article 78(A). This new article provides that, for certain matters, an approval by votes constituting more than 50% of the voting rights held by public shareholders at the shareholders' general meeting shall be required. Such matters include: (1) any follow-on public offering; (2) any restructuring of material assets where the total consideration for the assets acquired is equal to or exceeds 120% of the audited

Table of Contents

book value of such assets; (3) any repayment of debts owed by a shareholder to our company with our equity shares; (4) any overseas listing of a subsidiary of our company that has a material effect on our company; and (5) any matters relating to the development of our company that have a material effect on the interests and rights of the public shareholders. If a shareholders' general meeting is convened in connection with any of the above matters, our company shall provide the shareholders with online voting facilities.

New Article 78(B). This new article provides that, under any of the circumstances enumerated in Article 78(A), after giving a notice of a meeting of shareholders, our company shall publish such notice within three days after the relevant record date.

Amendments to Article 81. Pursuant to the amendments, public announcements shall be made with respect to the resolutions of the shareholders' general meeting in accordance with relevant regulations.

New Article 97(A). This new article provides that any provision of guarantee by our company for the benefits of any other person requires, among other things, approval by the shareholders' general meeting.

New Article 106(A). This new article provides that our board of directors must have at least three independent directors and that independent directors must otherwise represent at least one-third of all directors.

New Article 106(B). This new article provides that shareholder(s) individually or jointly holding more than 1% of the outstanding shares of our company may nominate candidates for election at a shareholders' general meeting as independent directors.

Amendments to Article 108. Pursuant to the amendments, our company shall have a department of investor relations that is specially responsible for strengthening the communications with shareholders, especially public shareholders.

A copy of the amended articles of association is attached as an exhibit to this annual report.

Table of Contents

Use of Proceeds

Not applicable.

Item 15. Controls and Procedures.

In June 2006, in connection with their audit of our consolidated financial statements as of and for the year ended December 31, 2005, our independent auditors, PricewaterhouseCoopers, identified to our management and audit committee certain internal control deficiencies in our internal control over financial reporting that they considered to constitute material weaknesses in our internal control over financial reporting.

The internal control deficiencies that were identified as material weaknesses include: (1) lack of sufficient accounting personnel with sufficient U.S. GAAP and IFRS technical expertise, including insufficient complement of financial reporting personnel commensurate with the company's financial reporting requirements and insufficient formalized and consistent finance and accounting policies and procedures to detect instances of non-compliance with such existing policies and procedures; and (2) ineffective implementation of certain procedures for the accounting, approval and disclosure of related party transactions.

PricewaterhouseCoopers further advised the audit committee that the internal control deficiencies it identified did not affect PricewaterhouseCoopers' report on our consolidated financial statements as of December 31, 2005 and for the year then ended included in this annual report.

Our management, including our president and our chief financial officer, acknowledged that our company's internal controls suffered from the internal control deficiencies identified by PricewaterhouseCoopers. Our management are committed to remedy these deficiencies to our company's internal controls and has been implementing a series of remedial measures, including, among other things: (1) providing our accounting personnel with further training on the requirements of U.S. GAAP and IFRS to increase their familiarity with those standards; and (2) enhancing the implementation of our procedures for the accounting, approval and disclosure of related party transactions. In addition, our company established (i) a cash flow forecasting system and a cash needs budgeting system, and (ii) a designated fund management department to monitor the liquidity and financing management. We will also be generally allocating more human resources to the accounting and finance functions. Our company has engaged a special consultant to provide advice in respect of U.S. GAAP and IFRS. We will continue to consult with external consultants and our independent auditors for ways to make further improvements to our company's internal controls.

Our management, however, believes that none of these internal control deficiencies has had a material effect on our financial condition or results of operations or caused our financial statements as of and for the year ended December 31, 2005 to contain a material misstatement.

As required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, our company's management, including our president and our chief financial officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. As of December 31, 2005, an evaluation was performed under the supervision and with the participation of management, including our president and our chief financial officer, of the effectiveness of our company's disclosure controls and procedures. Based on that evaluation, our president and our chief financial officer concluded that our company's disclosure controls and procedures as of December 31, 2005 were effective to ensure that material information required to be disclosed in this annual report would be made known to our company's management, including our president and our chief financial officer, on a timely basis.

Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include a management's internal control report with our annual report on Form 20-F for the fiscal year ending December 31, 2006. Since 2004, in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, and under the supervision and with the participation of our management, including our president and our chief financial officer, we have been conducting evaluations of, and designing and implementing processes to improve, our internal controls. We are currently still reviewing our efforts to improve our internal controls and may in the future identify additional deficiencies to our internal controls. Should we discover any additional deficiencies, we will take appropriate measures to correct or improve of our internal controls. See the section headed "Item 3. Key Information Risk Factors Compliance with requirements under Section 404 of the Sarbanes-Oxley Act of 2002 .

Item 16A. Audit Committee Financial Expert.

Our board of directors has determined that Mr. Xie Rong, the chairman of our audit committee, is an independent financial expert serving on our audit committee.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our directors, supervisors, president, chief financial officer and other senior managers of our company. We have filed this code of ethics as an exhibit to this annual report by way of incorporation by reference.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the two years ended December 31, 2005:

	Audit Fees (RMB)	Audit-Related Fees (RMB)	Tax Fees (RMB)	Other Fees (RMB)
2004	6,093,550	1,000,000	0	0
2005	9,684,240	5,859,670	0	0

Before our principal accountants were engaged by our company or our subsidiaries to render audit or non-audit services, the engagement was approved by our audit committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

PART III

Item 17. Financial Statements.

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements.

Reference is made to pages F-1 to F-90.

Table of Contents

Item 19. Exhibits.

- (a) See Item 18 for a list of the financial statements filed as part of this annual report.
- (b) Exhibits to this annual report:

-75-

Table of Contents

Exhibit Index

Exhibits	Description
1.1	Articles of Association as amended on June 30, 2005 (English translation).
2.1	Specimen Certificate for the H Shares. ⁽¹⁾
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Receipts. ⁽²⁾
4.1	Office Space Lease Agreement between our company and Eastern Air Group Company (together with English translation). ⁽¹⁾
4.8	Employee Housing Lease Agreement between our company and Eastern Air Group Company (together with English translation). ⁽¹⁾
4.9	Aircraft Purchase Agreement, dated as of October 9, 2004, between our company and Airbus SAS. ⁽³⁾
4.10	Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our company and Airbus SAS. ⁽³⁾
4.11	Assets Transfer Agreement, dated as of May 12, 2005, between our company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). ⁽³⁾
4.12	Aircraft Purchase Agreement, dated as of August 8, 2005, between our company and The Boeing Company. ⁽⁴⁾
4.13	Aircraft Purchase Agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our company and The Boeing Company. ⁽⁴⁾
4.14	Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our company and Airbus SAS. ⁽⁴⁾
8.1	List of Subsidiaries (as of June 30, 2006).
11.1	Code of Ethics (English translation). ⁽⁵⁾
12.1	Certification of President pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of President pursuant to Rule 13a-14(b).
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

⁽¹⁾ Incorporated by reference to our Registration Statement on Form F-1 (File

No. 333-6260),
filed with the
Securities and
Exchange
Commission on
January 9, 1997.

- (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H shares.
- (3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2005.

Table of Contents

- (4) Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.

- (5) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 28, 2004.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA EASTERN AIRLINES CORPORATION
LIMITED

By: /s/ Li Fenghua

Name: Li Fenghua

Title: Chairman of the Board of Directors

Date: July 7, 2006

-78-

Table of Contents

Exhibit Index

Exhibits	Description
1.1	Articles of Association as amended on June 30, 2005 (English translation).
2.1	Specimen Certificate for the H Shares. ⁽¹⁾
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Receipts. ⁽²⁾
4.1	Office Space Lease Agreement between our company and Eastern Air Group Company (together with English translation). ⁽¹⁾
4.8	Employee Housing Lease Agreement between our company and Eastern Air Group Company (together with English translation). ⁽¹⁾
4.9	Aircraft Purchase Agreement, dated as of October 9, 2004, between our company and Airbus SAS. ⁽³⁾
4.10	Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our company and Airbus SAS. ⁽³⁾
4.11	Assets Transfer Agreement, dated as of May 12, 2005, between our company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). ⁽³⁾
4.12	Aircraft Purchase Agreement, dated as of August 8, 2005, between our company and The Boeing Company. ⁽⁴⁾
4.13	Aircraft Purchase Agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our company and The Boeing Company. ⁽⁴⁾
4.14	Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our company and Airbus SAS. ⁽⁴⁾
8.1	List of Subsidiaries (as of June 30, 2006).
11.1	Code of Ethics (English translation). ⁽⁵⁾
12.1	Certification of President pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of President pursuant to Rule 13a-14(b).
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

⁽¹⁾ Incorporated by reference to our Registration Statement on

Form F-1 (File No. 333-6260), filed with the Securities and Exchange Commission on January 9, 1997.

(2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H shares.

(3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2005.

(4) Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a

confidential
treatment
request.

- (5) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 28, 2004.
-

Table of Contents

**CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2003, 2004 AND 2005**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
CONSOLIDATED FINANCIAL STATEMENTS OF CHINA EASTERN AIRLINES CORPORATION LIMITED	
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2005</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2004 and 2005</u>	F-3
<u>Consolidated Cash Flows Statements for each of the three years in the period ended December 31, 2005</u>	F-5
<u>Consolidated Statements of Changes in Equity for each of the three years in the period ended December 31, 2005</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-8

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Shareholders of
China Eastern Airlines Corporation Limited:**

We have audited the accompanying consolidated balance sheets of China Eastern Airlines Corporation Limited (the Company) and its subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of operations, changes in owners' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Eastern Airlines Corporation Limited and its subsidiaries at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of generally accepted accounting principles in the United States of America would have affected the results of the operations for each of the three years in the period ended December 31, 2005 and the determination of consolidated owners' equity as of December 31, 2004 and 2005, to the extent summarized in Notes 43 and 44 to the consolidated financial statements.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,

June 30, 2006

F-1

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

(Amounts in thousands except for per share data)

		Year ended December 31,			(Note 2a)
		Restated 2003	Restated 2004	2005	2005
	Note	RMB 000	RMB 000	RMB 000	USD 000
Revenues	5	14,470,209	21,386,553	27,454,443	3,401,953
Other operating income	6	50,302	85,004	245,279	30,392
Operating expenses					
Commissions		(465,147)	(772,219)	(969,587)	(120,144)
Aircraft fuel		(3,044,956)	(5,429,658)	(8,888,873)	(1,101,444)
Take-off and landing charges		(2,254,456)	(3,019,742)	(3,718,846)	(460,812)
Ground services and other charges		(64,662)	(99,296)	(115,516)	(14,314)
Civil aviation infrastructure levies			(251,185)	(466,191)	(57,766)
Food and beverages		(541,669)	(758,046)	(976,787)	(121,036)
Wages, salaries and benefits	8	(1,449,054)	(1,865,879)	(2,359,467)	(292,368)
Aircraft maintenance		(816,613)	(860,184)	(1,383,989)	(171,494)
Aircraft depreciation and operating lease rentals		(3,524,883)	(4,466,523)	(5,254,716)	(651,126)
Other depreciation, amortization and operating lease rentals		(495,079)	(495,916)	(679,867)	(84,244)
Ticket reservation fee		(161,198)	(209,995)	(292,412)	(36,234)
Insurance costs		(163,765)	(152,194)	(148,862)	(18,446)
Office, administrative and other expenses		(1,472,956)	(1,858,336)	(2,430,361)	(301,152)
Total operating expenses		(14,454,438)	(20,239,173)	(27,685,474)	(3,430,580)
Operating profit		66,073	1,232,384	14,248	1,765
Interest income		147,846	129,020	128,700	15,948
Finance costs	9	(922,483)	(770,176)	(707,050)	(87,612)
Share of results in associates	19	(32,738)	(50,524)	(9,030)	(1,119)
Share of results in jointly controlled entities	20		45,268	(4,300)	(533)
(Loss)/profit before income tax		(741,302)	585,972	(577,432)	(71,551)
Taxation	11(a)	(239,373)	(129,601)	138,704	17,187
(Loss)/profit for the year		(980,675)	456,371	(438,728)	(54,364)
Attributable to:					
Equity holders of the Company		(1,097,161)	320,691	(467,307)	(57,905)
Minority interest		116,486	135,680	28,579	3,541
		(980,675)	456,371	(438,728)	(54,364)

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(0.23)

RMB0.07

RMB(0.10)

US\$(0.01)

The accompanying notes are an integral part of these consolidated financial statements.

F-2

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2005
(Amounts in thousands)

		Restated 2004	December 31, 2005	(Note 2a) 2005
	Note	RMB 000	RMB 000	USD 000
Non-current assets				
Property, plant and equipment	14	29,743,886	38,347,516	4,751,743
Construction in progress	15	188,654	240,884	29,849
Lease prepayments	16	828,808	972,771	120,539
Advance payments on acquisition of aircraft	17	2,678,603	9,072,673	1,124,219
Intangible assets	18	36,303	688,311	85,290
Investments in associates	19	633,212	629,746	78,034
Investments in jointly controlled entities	20	52,948	100,520	12,456
Available-for-sale financial assets		39,546	40,802	5,055
Other long-term assets	21	2,202,606	2,705,558	335,252
Deferred tax assets	11	395,465	434,839	53,882
Derivative assets	35	11,571	70,886	8,784
		36,811,602	53,304,506	6,605,103
Current assets				
Flight equipment spare parts		523,186	978,922	121,301
Trade receivables	22	1,707,062	1,918,409	237,715
Amounts due from related companies	39	122,253	205,712	25,490
Prepayments, deposits and other receivables	23	611,959	997,271	123,575
Cash and cash equivalents	24	2,114,447	1,864,001	230,973
Derivative assets	35		53,036	6,572
		5,078,907	6,017,351	745,626
Current liabilities				
Sales in advance of carriage		719,957	823,149	101,998
Trade payables and notes payables	25	1,457,217	3,394,898	420,671
Amounts due to related companies	39	138,968	295,030	36,558
Other payables and accrued expenses	26	4,466,024	6,021,481	746,137
Provision for aircraft overhaul expenses, current portion	27	52,798	15,589	1,932
Tax payable		162,606	47,259	5,856
Obligations under finance leases, current portion	28	1,189,648	2,428,037	300,865
Borrowings, current portion	29	9,382,351	18,554,630	2,299,154
Derivative liabilities	35		34,844	4,318
		17,569,569	31,614,917	3,917,489

Net current liabilities	(12,490,662)	(25,597,566)	(3,171,863)
Total assets less current liabilities	24,320,940	27,706,940	3,433,240

The accompanying notes are an integral part of these consolidated financial statements.

F-3

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2004 AND 2005
(Amounts in thousands)

		Restated 2004	December 31, 2005	(Note 2a) 2005 USD 000
	Note	RMB 000	RMB 000	
Non-current liabilities				
Provision for aircraft overhaul expenses	27	201,211	388,410	48,128
Obligations under finance leases	28	7,472,638	8,180,460	1,013,663
Borrowings	29	7,542,828	9,790,116	1,213,119
Other long-term liabilities	32	100,204	155,229	19,234
Post-retirement benefit obligations	33(b)	618,232	1,202,877	149,052
Long-term portion of staff housing allowances	34(b)	276,248	444,196	55,042
Deferred tax liabilities	11	687,850	601,340	74,514
Derivative liabilities	35	119,643	25,770	3,193
		17,018,854	20,788,398	2,575,945
Net assets		7,302,086	6,918,542	857,295
Equity				
Capital and reserves attributable to the Company's equity holders				
Share capital	30	4,866,950	4,866,950	603,077
Reserves	31	1,614,301	1,229,115	152,303
		6,481,251	6,096,065	755,380
Minority interest		820,835	822,477	101,915
Total equity		7,302,086	6,918,542	857,295

The accompanying notes are an integral part of these consolidated financial statements.

F-4

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED CASH FLOWS STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(Amounts in thousands)

	Note	Year ended December 31,			(Note 2a)
		2003 RMB 000	2004 RMB 000	2005 RMB 000	2005 USD 000
Cash flows from operating activities					
Cash generated from operations	36	4,086,358	4,242,852	3,369,783	417,559
Interest paid		(860,304)	(872,738)	(1,357,402)	(168,199)
Income tax paid		(62,977)	(104,009)	(59,932)	(7,426)
Net cash inflow from operating activities		3,163,077	3,266,105	1,952,449	241,934
Cash flows from investing activities					
Purchase of aircraft, engines, flight equipment, buildings, other property, plant and equipment		(5,776,617)	(1,525,845)	(2,486,830)	(308,150)
Additions of construction in progress		(249,737)	(178,065)	(189,220)	(23,447)
Proceeds on disposals of aircraft, engines, flight equipment, buildings, other property, plant and equipment		91,940	667,824	32,923	4,080
Acquisition of land use rights				(31,780)	(3,938)
Acquisition of available-for-sale financial assets				(1,256)	(156)
Acquisition of financial assets held for trading			(270,350)		
Advances payments on acquisitions of aircrafts		(1,295,656)	(2,076,990)	(7,751,197)	(960,471)
Repayments of advances payments on acquisitions of aircrafts			80,000		
Decrease/(increase) in long-term bank deposits		(64,255)	(51,108)	69,000	8,550
(Increase)/decrease in short-term bank deposits		(69,246)	31,424	(68,730)	(8,517)
Repayment of other payables (installment payment for acquisition of aviation business)		(30,000)	(30,000)	(30,000)	(3,717)
Investments in associates		(327,252)	(4,993)		
Investments in jointly controlled entities			(7,680)		
Proceeds from maturity of US Treasury zero coupon bonds			585,736		

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Proceeds from disposals of financial assets held for trading		311,920	275,585		
Interest received		104,243	71,900	128,700	15,948
Business acquisitions, net of cash outflow	38			(40,704)	(5,044)
Net cash outflow from investing activities		(7,304,660)	(2,432,562)	(10,369,094)	(1,284,862)

Notes to consolidated cash flow statements is set out in Note 36.

The accompanying notes are an integral part of these consolidated financial statements.

F-5

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED CASH FLOWS STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(Amounts in thousands)

		Year ended December 31,			(Note 2a)
	Note	2003	2004	2005	2005
		RMB 000	RMB 000	RMB 000	USD 000
Cash flows from financing activities					
Proceeds from drawn down of short-term bank loans		10,920,917	8,988,970	14,307,315	(1,772,858)
Repayments of short-term bank loans		(10,815,508)	(7,431,931)	(8,872,754)	(1,099,447)
Proceeds from drawn down of long-term bank loans		5,606,107	2,155,310	5,135,286	636,327
Repayments of long-term bank loans		(898,022)	(2,647,930)	(3,843,483)	(476,256)
Principal repayments of finance lease obligations		(1,400,749)	(1,617,001)	(1,157,334)	(143,408)
Proceeds from issuance of notes payables		1,254,030	1,347,786	4,228,783	524,000
Repayments of notes payables		(908,790)	(1,265,939)	(3,376,072)	(418,338)
Capital injection from minority shareholders of subsidiaries		5,765	218,387		
Proceeds from issuance of debentures				1,951,600	241,828
Dividends paid				(97,339)	(12,062)
Dividends paid to minority shareholders of subsidiaries			(60,000)	(90,000)	(11,152)
Net cash inflow/(outflow) from financing activities		3,763,750	(312,348)	8,186,002	1,014,350
Net (decrease)/increase in cash and cash equivalents		(377,833)	521,195	(230,643)	(28,578)
Cash and cash equivalents at January 1		1,944,525	1,582,780	2,114,447	262,007
Exchange adjustment		16,088	10,472	(19,803)	(2,456)
Cash and cash equivalents at December 31		1,582,780	2,114,447	1,864,001	230,973

Notes to consolidated cash flow statements is set out in Note 36.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(Amounts in thousands)

	Attributable to equity holders of the Company			Minority interest RMB 000	Total equity RMB 000
	Share capital RMB 000	Reserves RMB 000	Total RMB 000		
Balance at January 1, 2003 as previously presented	4,866,950	2,512,153	7,379,103		7,379,103
As previously separately reported as minority interest (Note 2(a))				404,517	404,517
Effect of changes in accounting policy on the adoption of IAS16 (Note 2(a))		(207,609)	(207,609)		(207,609)
Balance at January 1, 2003, as restated	4,866,950	2,304,544	7,171,494	404,517	7,576,011
Cash flow hedges, net of tax		(47,136)	(47,136)		(47,136)
Contributions from minority interest of subsidiaries				5,764	5,764
Loss for the year		(949,816)	(949,816)	116,487	(833,329)
Balance at December 31, 2003	4,866,950	1,307,592	6,174,542	526,768	6,701,310
Balance at January 1, 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 January 1, 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 December 31, 2004	4,866,950	1,614,301	6,481,251	820,835	7,302,086
	4,866,950	2,015,294	6,882,244		6,882,244

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Balance at January 1, 2005 as previously presented					
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 January 1, 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 January 1, 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 December 31, 2005	4,866,950	1,229,115	6,096,065	822,477	6,918,542

The accompanying notes are an integral part of these consolidated financial statements.

F-7

Table of Contents

**CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED 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 April 14, 1995. The address of its registered office is 6 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 December 31, 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 38.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been constantly 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.

This basis of accounting under IFRS differs from generally accepted accounting principles in the United States of America (U.S. GAAP). Differences between IFRS and U.S. GAAP and their effect on profit attributable to equity holders for each of the three years ended December 31, 2005, and on owners' equity at December 31, 2004 and 2005, are set out in note 43. The consolidated financial statements incorporate additional disclosures customary in filings with the Securities and Exchange Commission of the United States of America (the SEC).

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

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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 capitalized as a component of property, plant and equipment, and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognized 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 derecognized 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.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(a) Basis of Preparation (Continued)**

The adoption of revised IAS 16 resulted in:

	2003	2004	2005
Increase/(decrease)	RMB 000	RMB 000	RMB 000
Decrease in aircraft maintenance expenses	(526,592)	(536,099)	(710,824)
Increase in aircraft depreciation	673,836	794,390	820,555
Decrease in taxation	(3,954)	(50,479)	(19,658)
Increase/(decrease) in profit for the year attributable to minority interest	4,055	(14,428)	30,271
Decrease in the profit attributable to equity holders of the Company	(147,345)	(193,384)	(120,344)
Decrease in aircraft, engines and flight equipment	(218,142)	(476,433)	(586,163)
Decrease in deferred tax liabilities	(14,588)	(65,067)	(84,725)
Increase/(decrease) in minority interest	4,055	(10,373)	19,898
Decrease in beginning retained profits	(60,264)	(207,609)	(400,993)
Decrease in basic and diluted earnings per share	RMB(0.03)	RMB(0.04)	RMB(0.02)

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 amortization of goodwill and negative goodwill from January 1, 2005. Accumulated amortization as at December 31, 2004 has been eliminated with a corresponding decrease in the costs of goodwill and negative goodwill. From January 1, 2005 onwards, positive goodwill arising from all acquisitions is no longer subject to amortization but is tested annually for impairment, as well as when there are indications of impairment. The balance of negative goodwill as at January 1, 2005 is derecognized with a corresponding adjustment to the opening balance of retained profits. Negative goodwill amounted RMB42,873,000 has been derecognized to the opening balance of retained profits as at January 1, 2005. From January 1, 2005 onwards, IFRS 3 requires, the Group to recognize immediately in the income statement the excess of the net fair value of those items acquired over the cost of the acquisition.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

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 January 1, 2006 or later periods, but the Group has not early adopted are, 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 January 1, 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 January 1, 2006.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

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 January 1, 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.

The financial information has been prepared in Renminbi (RMB), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2005 financial statements have been translated into United States dollars (US\$) at the rate of US\$1.00 = RMB8.0702, being the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on December 31, 2005 or at any other certain date.

(b) Group accounting

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

(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.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (CONTINUED)

(i) Subsidiaries (Continued)

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 recognized directly in the income statement (see Note 2(k)).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(b) Group accounting (CONTINUED)****(i) Subsidiaries (Continued)**

Particulars of the principal subsidiaries, all of which are limited companies established and operating in the PRC, as of December 31, 2005 are as follows:

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

c

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (CONTINUED)

(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 recognized at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(k)).

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

(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 recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealized 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. Unrealized 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.

(iv) Common Control Transactions

The Group adopts acquisition accounting for common control transactions.

F-15

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 recognized 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 recognized directly in equity, any exchange component of that gain or losses is recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the income statement, any exchange component of that gain or loss is recognized in the income statement.

(d) Revenue recognition and sales in advance of carriage

Passenger, cargo and mail revenues are recognized 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 recognized 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 recognized in the income statement when the related revenue is recognized.

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

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

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

Revenues are presented net of business tax.

(e) Segment 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.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Segment reporting (Continued)

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 organized by the municipal governments of the relevant provinces. The contributions to the schemes are charged to the income statement as and when incurred.

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 recognized 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 unrecognized 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 recognized 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 amortized on a straight-line basis over the vesting period.

F-17

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 labor 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 capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognized 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 derecognized and charged to the income statement.

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 capitalized and depreciated over their expected useful lives to the Group.

(h) Government grant

Grants from the government are recognized 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 recognized as a reduction of carrying amount of the asset. The grant is recognized 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.

F-18

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Taxation (Continued)

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

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 recognized 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.

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 capitalized 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)).

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Property, plant and equipment (Continued)

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.

(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. Recognized 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 amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 capitalized (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 amortization. Amortization is provided over the lease period of land use rights on a straight-line basis.

(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 capitalized (Note 2(p)). The balance is transferred to property, plant and equipment upon delivery of the aircraft.

F-20

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Borrowing costs

Interest attributable to loans for advance payments used to finance the acquisition of aircraft and other qualifying assets is capitalized as an additional cost of the related asset. Interest is capitalized 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 recognized in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortized cost less impairment losses.

(r) Flight equipment spare parts

Flight equipment spare parts are stated at the lower of cost and net realizable 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 realizable value is the estimated replacement cost of the flight equipment spare parts.

(s) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized 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 reorganization, 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 recognized in the income statement.

(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 recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognized 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.

F-21

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) Provisions

Provisions are recognized 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 recognized 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 recognized 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 recognized 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 capitalized 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.

(ii) A Group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized 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 recognized on a straight-line basis over the lease term.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) Derivative financial instruments

Derivative financial instruments are initially recognized 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 unrealized gains or losses, being changes in fair value of the derivative, are recognized 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:

(i) the effective portions of any change in fair value on the derivative financial instrument is recognized 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 recognized 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 recognized 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 recognized 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 recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's equity holders.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 recognized at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognized directly in equity in the fair value reserve, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized 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 recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(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.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) *Financial risk factors (Continued)*

(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 35(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 29. Details of interest rate swaps are disclosed in Note 35(a).

(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 December 31, 2005, the Group's net current liabilities amounted to RMB25,598 million (2004: RMB12,491 million). For the year ended December 31, 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.

F-25

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) *Financial risk factors (Continued)*

(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 35(b)).

(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.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(1). 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.

(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 judgment, including the Group's estimates of the future cash flows attributable to the asset and the appropriate discount rate. If different judgments or estimates had been utilized, 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 December 31, 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 recognized at cost and are subsequently stated at revalued amount less accumulated depreciation. Their recorded value is impacted by management judgment, 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 utilized, 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 December 31, 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.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Revenue recognition

As discussed in Note 2(d), passenger, cargo and mail revenues are recognized 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 recognized 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 recognizing 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.

(f) Overhaul costs

The amount of overhaul costs charged/amortized 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 recognized over the employees' service period by utilizing 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 33.

(h) Deferred taxation

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognized, 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 utilize the tax benefits of net operating loss carry forwards 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.

F-28

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****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.

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000
Revenues			
Traffic revenues (a)			
Passenger	10,389,701	15,925,933	21,367,747
Cargo and mail	3,226,949	4,540,463	5,087,244
Commission income	157,784	292,991	185,827
Ground service income	471,338	695,433	806,755
Cargo handling income	163,450	227,806	292,488
Rental income from operating subleases of aircraft	31,209	121,480	183,260
Others	198,417	110,615	198,175
	14,638,848	21,914,721	28,121,496
Less: Business tax (b)	(168,639)	(528,168)	(667,053)
	14,470,209	21,386,553	27,454,443

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 recognized 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 recognized as revenue in 2005.

From January 1, 2005, the above insurance and security surcharges together with other surcharges are recognized 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.

- (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

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****6 OTHER OPERATING INCOME**

	Year ended December 31,		
	2003	2004	2005
	RMB 000	RMB 000	RMB 000
Government subsidies (a)	58,448	73,506	193,069
Net fair value gains on financial instruments			
forward foreign exchange contract	(8,146)	11,498	25,002
fuel hedging income			27,208
	50,302	85,004	245,279

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.

(b) Secondary reporting format by geographical segment

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

	Domestic [#]	Hong Kong	Japan	Other	Total
	RMB 000	RMB 000	RMB 000	countries*	RMB 000
				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

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

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

F-30

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7 SEGMENT INFORMATION (CONTINUED)**

	Domestic#	Hong Kong	Japan	Other	Total
	RMB 000	RMB 000	RMB 000	countries*	RMB 000
				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

	Domestic#	Hong Kong	Japan	Other	Total
	RMB 000	RMB 000	RMB 000	countries*	RMB 000
				RMB 000	
2003					
Traffic revenues					
Passenger	5,591,640	1,667,123	1,001,544	2,114,933	10,375,240
Cargo and mail	279,003	390,088	588,361	1,929,532	3,186,984
	5,870,643	2,057,211	1,589,905	4,044,465	13,562,224
Commission income	117,448	10,788	8,338	21,210	157,784
Ground service income	471,338				471,338
Cargo handling income	163,450				163,450
Rental income from operating sublease of aircraft	31,209				31,209
Other operating revenues	84,204				84,204
	6,738,292	2,067,999	1,598,243	4,065,675	14,470,209
Other operating income	50,302				50,302
Segment results (operating profit)	(524,488)	198,406	166,545	225,610	66,073

#: *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.*

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.

F-31

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****8 WAGES, SALARIES AND BENEFITS**

	Year ended December 31,		
	2003	2004	2005
	RMB 000	RMB 000	RMB 000
Wages, salaries, bonus and allowances	892,012	1,549,339	1,774,292
Employee welfare and benefits	135,080	41,383	166,267
Staff housing allowance (Note 34(b))	260,463	29,253	36,231
Defined contribution retirement schemes (Note 33(a))	121,200	194,200	280,218
Post-retirement benefits (Note 33(b))	40,299	51,704	102,459
	1,449,054	1,865,879	2,359,467

9 FINANCE COSTS

	Year ended December 31,		
	2003	2004	2005
	RMB 000	RMB 000	RMB 000
Interest relating to obligations under finance leases			
wholly repayable within five years	324,184	265,949	195,764
not wholly repayable within five years	166,272	73,327	128,869
	490,456	339,276	324,633
Interest on loans from bank and financial institutions			
wholly repayable within five years	265,955	410,998	729,698
not wholly repayable within five years	180,291	144,693	243,433
	446,246	555,691	973,131
Interest relating to note payables	6,396	22,148	52,639
Amortization of the discount on zero coupon debentures			22,944
Interest relating to a long-term payable (Note 29)	9,610	8,344	6,999
	952,708	925,459	1,380,346
Less: amounts capitalized into advance payments on acquisition of aircraft (Note 17)	(97,414)	(57,120)	(279,989)
	855,294	868,339	1,100,357
Net foreign exchange (gains)/losses (a)	62,179	32,207	(414,640)
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	5,010	2,659	21,333
	922,483	770,176	707,050

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

F-32

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****10 (LOSS)/PROFIT BEFORE INCOME TAX**

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

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000
Charging:			
Depreciation of property, plant and equipment	2,956,031	3,076,585	3,911,722
Operating lease rentals			
aircraft	1,238,012	1,720,736	1,785,615
land and buildings	116,279	146,704	212,027
Amortization of lease prepayments	20,049	18,414	25,219
Amortization of goodwill	5,654	5,654	
Loss on disposals of property, plant and equipment	33,578		
Consumption of flight equipment spare parts	86,009	139,711	239,134
Allowances for obsolescence of flight equipment spare parts	53,336	73,406	
Provision for impairment of trade and other receivables	19,229	24,250	25,325
Auditors remuneration	7,380	7,380	10,000
and crediting:			
Amortization of negative goodwill	3,452	3,452	
Reversal of allowances for obsolescence of flight equipment spare parts			13,930
Gain on disposals of property, plant and equipment		47,819	8,073
Gain on disposals of financial asset held for trading	21,920	5,235	

F-33

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11 TAXATION**

(a) Taxation (credited)/charged to the consolidated statements of operations is as follows:

	Year ended December 31,		
	2003	2004	2005
	RMB 000	RMB 000	RMB 000
Provision for PRC income tax, net of reversal	124,530	160,502	(81,734)
Deferred taxation	114,843	(30,901)	(56,970)
	239,373	129,601	(138,704)

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 statements of operations differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Year ended December 31,		
	2003	2004	2005
	RMB 000	RMB 000	RMB 000
(Loss)/profit before taxation	(741,302)	585,972	(577,432)
Adjusted:			
Share of result of associates and jointly controlled entities	32,738	5,256	13,330
	(708,564)	591,228	(564,102)
Tax calculated at enacted tax rate of 15%	106,285	(88,684)	84,615
Effect attributable to subsidiaries charged at tax rate of 33%	(10,539)	(17,578)	18,334
Effect attributable to subsidiaries with income tax exemption			33,852
Income not subject to taxation			4,462
Expenses not deductible for tax purposes	(74,273)	(27,673)	(5,642)
Reversal of income tax provision made in prior years as a result of tax clearance with local tax bureau			81,807
Unrecognized tax losses	(258,515)		(86,074)
Utilization of previously unrecognized tax losses		6,395	
Others	(2,331)	(2,061)	7,350
Tax (charge)/benefit	(239,373)	(129,601)	138,704

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11 TAXATION (CONTINUED)**

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

	December 31,	
	2004	2005
	RMB 000	RMB 000
Deferred tax assets		
Deferred tax asset to be utilized after 12 months	286,780	286,764
Deferred tax asset to be utilized within 12 months	108,685	148,075
	395,465	434,839
Deferred tax liabilities		
Deferred tax liability to be realized after 12 months	(687,850)	(601,340)
Deferred tax liability to be realized within 12 months		
	(687,850)	(601,340)
Deferred tax liabilities, net	(292,385)	(166,501)

Movements in net deferred taxation liability is as follows:

	December 31,	
	2004	2005
	RMB 000	RMB 000
At January 1, as restated	325,753	292,385
Additions through business acquisitions (Note 38)		(93,017)
Credited to income statement (Note 11(a))	(30,901)	(56,970)
Charged/(credited) to equity:		
gain/(losses) on cashflow hedges (Note 31)	(2,467)	24,103
At December 31	292,385	166,501

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11 TAXATION (CONTINUED)**

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:

	December 31,	
	2004	2005
	RMB 000	RMB 000
Deferred tax assets:		
Tax losses carried forward	349,562	451,659
Provision for obsolete flight equipment spare parts	54,014	33,192
Repair cost on flight equipment	119,039	64,454
Provision for post-retirement benefits	95,252	185,102
Other accrued expenses and derivative financial instruments	120,704	139,949
	738,571	874,356
Less: unrecognized assets	(252,120)	(338,194)
	486,451	536,162
Deferred tax liabilities:		
Provision for aircraft overhauls	(106,128)	(143,517)
Depreciation and amortization	(672,708)	(559,146)
	(778,836)	(702,663)
Net deferred tax liabilities	(292,385)	(166,501)

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

	At December 31, 2003 RMB 000	(Charged)/ credited to income statement RMB 000	(Charged)/ credited to equity RMB 000	At December 31, 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)

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Depreciation and amortization	(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)

F-36

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11 TAXATION (CONTINUED)**

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

	At December 31, 2004 RMB 000	(Charged)/ credited to income statement RMB 000	(Charged)/ credited to equity RMB 000	Additions through business acquisitions (Note 38) RMB 000	At December 31, 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 amortization	(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 set against future taxable income for a period of five years. As of December 31, 2004 and 2005, the Group had tax losses carried forward of approximately RMB2,330,000,000 and RMB3,011,000,000 respectively which will expire between 2006 and 2010, available to off set against the Group's future taxable income. As of December 31, 2004 and 2005, the Group did not recognize RMB252,120,000 and RMB338,194,000 of deferred tax assets arising from the tax losses available as management did not consider it probable that such tax losses would be realized before they expire.

12 DIVIDENDS

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

13 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of RMB1,097,161,000, profit of RMB 320,691,000 and loss of RMB467,307,000 for the year ended December 31, 2003, 2004 and 2005, respectively and 4,866,950,000 weighted average number of shares in issue during the years ended December 31, 2003, 2004 and 2005. The Company has no potential dilutive ordinary shares.

F-37

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****14 PROPERTY, PLANT AND EQUIPMENT**

	Aircraft, engines and flight equipment		Buildings RMB 000	Other property, plant and equipment RMB 000	Total RMB 000
	Owned RMB 000	Held under finance leases RMB 000			
Valuation					
At January 1, 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 38)	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 December 31, 2005	33,254,963	17,791,313	2,424,989	3,069,495	56,540,760
Accumulated depreciation					
At January 1, 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 December 31, 2005	11,880,147	4,426,004	479,334	1,407,759	18,193,244
Net book amount					
At December 31, 2005	21,374,816	13,365,309	1,945,655	1,661,736	38,347,516
At January 1, 2005	16,504,214	10,188,042	1,861,806	1,189,824	29,743,886

- (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 recognized as a reduction in the cost of the aircraft.
- (b) The Group's property, plant and equipment is stated at fair value. The latest independent valuation was performed on June 30, 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:

	2004	2005
	RMB 000	RMB 000
At December 31,	29,262,326	37,943,085

- (c) As at December 31, 2005, aircraft owned by the Group 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 29).

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****15 CONSTRUCTION IN PROGRESS**

	December 31,	
	2004	2005
	RMB 000	RMB 000
At January 1,	219,788	188,654
Additions through business acquisitions (Note 38)		13,577
Other additions	178,065	189,220
Transfer to property, plant and equipment (Note 14)	(209,199)	(150,567)
At December 31,	188,654	240,884
Representing:		
Buildings	81,599	103,418
Other property, plant and equipment	107,055	137,466
	188,654	240,884

16 LEASE PREPAYMENTS

	December 31,	
	2004	2005
	RMB 000	RMB 000
Cost		
At January 1,	965,462	965,462
Additions through business acquisitions (Note 38)		74,339
Other additions		94,843
At December 31,	965,462	1,134,644
Accumulated amortization		
At January 1,	118,240	136,654
Amortization charge	18,414	25,219
At December 31,	136,654	161,873
Net book amount		
At December 31,	828,808	972,771

Lease prepayments represent unamortized 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 December 31, 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, 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 rights. 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.

The directors do not believe the lack of certificates of certain land use rights has any material impact on the financial position of the Group

F-39

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****17 ADVANCE PAYMENTS ON ACQUISITION OF AIRCRAFT**

	December 31,	
	2004	2005
	RMB 000	RMB 000
At January 1,	2,239,893	2,678,603
Additions	1,996,990	7,751,197
Interest capitalized (Note 9)	57,120	279,989
Transfers to property, plant and equipment (Note 14)	(1,615,400)	(1,637,116)
At December 31,	2,678,603	9,072,673

Included in balance at December 31, 2004 and 2005 is accumulated interest capitalized of RMB 160,016,000 and RMB409,530,000, at an average interest rate of 4.0% and 4.0% respectively.

18 INTANGIBLE ASSETS

	December 31,		
	Goodwill	Negative goodwill	Net Balance
	RMB 000	RMB 000	RMB 000
Year ended December 31, 2004			
Net book amount, at beginning of year	84,830	(46,325)	38,505
Amortization (charge)/credit	(5,654)	3,452	(2,202)
Net book amount, at end of year	79,176	(42,873)	36,303
At December 31, 2004			
Cost	113,105	(55,245)	57,860
Accumulated amortization and impairment	(33,929)	12,372	(21,557)
Net book amount, at end of year	79,176	(42,873)	36,303
Year ended December 31, 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 38)	609,135		609,135
Net book amount, at end of year	688,311		688,311

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

of operations.

F-40

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTANGIBLE ASSETS (CONTINUED)

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 are:

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.

F-41

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****19 INVESTMENTS IN ASSOCIATES**

	December 31,	
	2004	2005
	RMB 000	RMB 000
Unlisted investments, at cost	757,676	763,240
Goodwill	47,060	47,060
Share of post acquisition results/(reserves)	(171,524)	(180,554)
	633,212	629,746

Movement of investments in associates is as follows:

	2004	2005
	RMB 000	RMB 000
At January 1,	656,054	633,212
Cost of additional investment	27,682	5,564
Share of results	(44,318)	(9,030)
Amortization of goodwill	(6,206)	
At December 31,	633,212	629,746

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	Attributable equity interest		Principal activities
			RMB 000	2004	
China Eastern Airlines Wuhan Co., Ltd. (a) (CEA Wuhan)	PRC August 16, 2002	600,000	40%	40%	Provision of air transportation services
Eastern Air Group Finance Co., Ltd. (EAGF)	PRC December 6, 1995	400,000	25%	25%	Provision of financial services to group companies of CEA Holding
Eastern Aviation Advertising Services Co., Ltd.	PRC March 4, 1986	10,000	45%	45%	Provision of aviation advertising agency services
China Eastern Air Catering Investment Co., Ltd.	PRC November 17, 2003	350,000	45%	45%	Provision of air catering services
Eastern Aviation Import	PRC	80,000	45%	45%	Provision of aviation

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

& Export Co., Ltd. (EAIEC)	June 9, 1993				equipment, spare parts and tools trading
Shanghai Dongmei Aviation Travel Co., Ltd. (SDATC)	PRC October 17, 2004	31,000	45%	45%	Provision of travelling and accommodation agency services

F-42

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****19 INVESTMENTS IN ASSOCIATES (CONTINUED)**

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

Notes:

- (a) Subsequent to December 31, 2005, the Company completed acquisitions amounting in aggregate to an additional 56% interest in China Eastern Airlines Wuhan Co., Ltd. (Note 42).
- (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
2004	2,098,974	1,465,762	915,174	(44,318)
2005	1,807,387	1,177,641	887,928	(9,030)

F-43

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****20 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES**

	December 31,	
	2004	2005
	RMB 000	RMB 000
Unlisted investments, at cost	7,680	59,552
Share of post-acquisition results/(reserves)	45,268	40,968
	52,948	100,520

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

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

Movement of investments in jointly controlled entities is as follows:

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

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		Principal activities
			2004	2005	
Shanghai Technologies Aerospace Co., Ltd. (STA) (a)	PRC September 28, 2004	113,843		51%	Provision of repair and maintenance
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd (Wheels & Brakes)	PRC December 28, 1995	17,484	40%	40%	Provision of spare parts repair and maintenance

Eastern China Kaiya System Integration Co., Ltd.	PRC May 21, 1999	10,000	41%	41%	Provision of computer systems development
--	---------------------	--------	-----	-----	---

Notes

- (a) Under a Joint Venture Agreement dated March 10, 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.

F-44

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****21 OTHER LONG-TERM ASSETS**

	December 31,	
	2004	2005
	RMB 000	RMB 000
Long-term bank deposits (a)	1,908,398	2,026,220
Deposits relating to aircraft under operating leases (b)	133,159	446,323
Prepaid customs duty and value added tax	21,083	4,756
Rental and renovation deposits	18,558	34,777
Prepaid staff benefits (c)	28,439	62,096
Other long-term receivables	92,969	131,386
	2,202,606	2,705,558

(a) The long-term bank deposits are pledged as collateral under certain finance lease arrangements (see Note 28). As at December 31, 2004 and 2005, the effective interest rate on the long-term bank deposits was 5.0% and 3.6% per annum respectively. The deposits have average maturities of 4.4 years. The fair value of long-term bank deposit of the Group is RMB1,991 million and RMB2,114 million as at December 31, 2004 and 2005 respectively, 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 the Group is RMB133 million and RMB446 million as at December 31, 2004 and 2005 respectively, 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
amortized over six
years on the
straight-line basis.

F-45

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****22 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:

	December 31,	
	2004	2005
	RMB 000	RMB 000
Less than 31 days	1,223,059	1,580,082
31 to 60 days	259,086	134,095
61 to 90 days	116,048	122,377
91 to 180 days	93,587	34,097
181 to 365 days	4,047	13,302
Over 365 days	89,208	127,466
	1,785,035	2,011,419
Less: provision for impairment of receivables	(77,973)	(93,010)
Trade receivables, net	1,707,062	1,918,409

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	December 31,	
	2004	2005
	RMB 000	RMB 000
Prepaid aircraft operating lease rentals	19,373	21,279
Prepayment for acquisition of flight equipments and other assets	126,645	179,206
Deposits with banks and a financial institution with original maturity over three months but less than a year (a)	77,446	175,332
Custom duties and value added tax recoverable (b)		114,781
Rebate receivable on aircraft acquisitions	31,136	102,582
Rental deposits	43,674	49,303
Others	313,685	354,788
	611,959	997,271

(a) As at
December 31,
2004 and 2005, the
effective interest
rate on deposits
with banks and a

financial institution
is 0.7 and 0.7%
respectively.

- (b) Pursuant to the
Caiguanshui
[2004] No. 63
issued by the
Ministry of
Finance on
December 29,
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
January 1, 2005.
During the year
ended
December 31,
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
December 31,
2005, the Group
has aggregated
recoverable
balances of
RMB114,781,000.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****24 CASH AND CASH EQUIVALENTS**

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	2004	2005
	RMB 000	RMB 000
Renminbi	1,821,638	1,281,206
US Dollars	105,448	333,099
Japanese Yen	55,203	76,591
Euro	27,760	37,420
Pound Sterling	17,534	22,979
Australian Dollars	13,601	18,969
Singapore Dollars	15,063	15,943
Canadian Dollars	4,977	14,187
Others	53,223	63,607
	2,114,447	1,864,001

25 TRADE PAYABLES AND NOTES PAYABLES

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

	December 31,	
	2004	2005
	RMB 000	RMB 000
Less than 31 days	923,041	1,697,293
31 to 60 days	69,163	397,187
61 to 90 days	74,533	195,869
91 to 180 days	369,478	846,775
181 to 365 days		212,025
Over 365 days	21,002	45,749
	1,457,217	3,394,898

As at December 31, 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.

F-47

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****26 OTHER PAYABLES AND ACCRUED EXPENSES**

	December 31,	
	2004	2005
	RMB 000	RMB 000
Accrued fuel cost	1,239,930	1,415,797
Accrued take-off and landing charges	724,164	810,226
Accrued aircraft overhaul expenses	461,200	745,627
Accrued salaries, wages and benefits	242,195	271,963
Other accrued operating expenses	492,109	739,415
Duties and levies payable	431,922	755,373
Current portion of provision for staff housing allowances (Note 34 (b))	93,427	13,270
Current portion of other long-term liabilities (Note 32)	30,000	66,029
Current portion of post-retirement benefit obligations (Note 33(b))	27,500	35,825
Staff housing fund payable (Note 34(a))	75,364	136,510
Deposit received from ticketing agents	215,335	353,805
Current portion of operating lease payable		52,268
Staff welfare payable	25,666	39,433
Others	407,212	585,940
	4,466,024	6,021,481

27 PROVISION FOR AIRCRAFT OVERHAUL EXPENSES

	December 31,	
	2004	2005
	RMB 000	RMB 000
At January 1,	266,093	254,009
Additions through business acquisitions (Note 38)		196,122
Additional provisions	75,897	64,700
Reversal resulting from change in estimate (a)	(20,814)	(58,577)
Utilization	(67,167)	(52,255)
At December 31,	254,009	403,999
Less: current portion	(52,798)	(15,589)
Long-term portion	201,211	388,410

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.

- (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.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****28 OBLIGATIONS UNDER FINANCE LEASES**

At December 31, 2004 and 2005, Group had 22 and 26 aircraft, respectively under finance leases. Under the terms of the leases, Group 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 costs of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

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

	December 31, 2004			December 31, 2005		
	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	1,526,981	337,333	1,189,648	2,885,047	457,010	2,428,037
In the second year	1,962,208	262,372	1,699,836	2,870,162	300,106	2,570,056
In the third to fifth year	3,924,600	168,346	3,756,254	3,487,110	472,914	3,014,196
After the fifth year	2,401,578	385,030	2,016,548	2,934,000	337,792	2,596,208
Total	9,815,367	1,153,081	8,662,286	12,176,319	1,567,822	10,608,497
Less: amount repayable within one year	(1,526,981)	(337,333)	(1,189,648)	(2,885,047)	(457,010)	(2,428,037)
Long-term portion	8,288,386	815,748	7,472,638	9,291,272	1,110,812	8,180,460

The fair value of obligations under finance leases is RMB8,382 and RMB10,432 million as at December 31, 2004 and 2005 respectively, which is 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 December 31, 2004 and 2005, the Group had long-term bank deposits totaling RMB 1,908,398,000 and RMB2,026,220,000 respectively pledged as collateral under certain finance lease arrangements (Note 21). 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.

F-49

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 BORROWINGS**

	December 31,	
	2004	2005
	RMB 000	RMB 000
Non-current		
Long-term bank borrowings		
secured	2,987,920	5,809,678
unsecured	4,554,908	3,980,438
	7,542,828	9,790,116
Current		
Long-term bank borrowings		
secured	2,925,038	1,555,313
unsecured	268,394	1,313,917
Short-term bank borrowings		
secured		33,000
unsecured	6,188,919	13,677,856
Debentures		1,974,544
	9,382,351	18,554,630
Total borrowings	16,925,179	28,344,746
The borrowings are repayable as follows:		
Within one year	9,382,351	18,554,630
In the second year	2,386,862	2,663,434
In the third to fifth year	3,216,181	5,517,473
After the fifth year	1,939,785	1,609,209
	16,925,179	28,344,746

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

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

		2004	2005
		RMB 000	RMB 000
Interest rate and final maturities			
RMB denominated bank loans:			
Loans for working capital	Fixed interest rates ranging from 4.94% to 5.76% per annum as at December 31, 2005; 3-year loans with final maturity through to 2008.	1,710,100	3,253,500

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Loans for the purchases of aircraft	Fixed interest rates of 5.18% per annum as at December 31, 2005; 2 to 8-year loans with final maturity through to 2012	880,000	1,455,000
Loans for construction projects	Fixed interest rates of 5.76% per annum as at December 31, 2005; 7 to 10-year loans with final maturities through to 2007	412,500	200,000

F-50

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 BORROWINGS (CONTINUED)**

		2004	2005
		RMB 000	RMB 000
Interest rate and final maturities			
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
Loans for the purchases of aircraft	Floating interest rates ranging from 3 months LIBOR+0.25% to 6 months LIBOR+0.75% as at December 31, 2005; 2 to 10-year loans with final maturities through to 2015	7,703,037	7,295,480
Loan for the purchase of an aircraft simulator	Floating interest rates of 6 months LIBOR +0.6% as at December 31, 2005; 3-year loans with final maturity in 2007	30,623	111,820
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
Total long-term bank loans		10,736,260	12,659,346

* These loans are secured by the related aircraft.

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 December 31, 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 December 31, 2005, the weighted average interest rate on short-term bank loans was 4.62% per annum (2004: 3.34% per annum).

On August 5, 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 August 4, 2006. On August 23, 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 May 22, 2006.

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

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

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 BORROWINGS (CONTINUED)**

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

	2004 RMB 000	2005 RMB 000
Renminbi	7,295,601	13,112,485
US Dollars	9,430,325	15,232,261
Japanese Yen	199,253	
	16,925,179	28,344,746

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

Certain unsecured bank borrowings of the Group totalling of RMB2,122,600,000 and RMB2,122,600,000 were guaranteed by CEA Holding as at December 31, 2004 and 2005 respectively (Note 39)

30 SHARE CAPITAL

	December 31, 2004 RMB 000	2005 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.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****31 RESERVES**

(Amounts in thousands)

	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 35) RMB 000	Retained profits RMB 000	Total RMB 000
At January 1, 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 IAS16						(207,609)	(207,609)
At January 1, 2004, restated	1,006,455	314,035	490,688	(720,057)	(77,879)	294,350	1,307,592
Unrealized losses on cashflow hedges (Note 35)							
gross					(7,610)		(7,610)
tax					1,141		1,141
Realized gains on cashflow hedges (Note 35)							
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 December 31, 2004	1,006,455	381,171	490,688	(720,057)	(91,861)	547,905	1,614,301

F-53

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****31 RESERVES (CONTINUED)**

(Amounts in thousands)

	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 35) RMB 000	Retained profits RMB 000	Total RMB 000
At January 1, 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 January 1, 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
Unrealized gains on cashflow hedges (Note 35)							
gross					181,449		181,449
tax					(27,217)		(27,217)
Realized gains on cashflow hedges (Note 35)							
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 December 31, 2005	1,006,455	407,842	490,688	(720,057)	44,726	(539)	1,229,115

(a) Statutory and Discretionary Reserves

	December 31, 2004 RMB 000	December 31, 2005 RMB 000
Statutory common reserve fund	178,797	196,746

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Statutory common welfare fund	174,385	183,107
Discretionary common reserve fund	27,989	27,989
	381,171	407,842

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's 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.

F-54

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****31 RESERVES (CONTINUED)**

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 December 31, 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 December 31, 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.

32 OTHER LONG-TERM LIABILITIES

	December 31,	
	2004	2005
	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)	130,204	107,203
	130,204	221,258
Less: Current portion (Note 26)	(30,000)	(66,029)
Long-term portion	100,204	155,229

- (a) Deferred credit on aircraft operating lease rental represents the unamortized 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 December 31, 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.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****33 RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS****(a) Defined contribution retirement schemes****(i) Pension**

The Group companies participate in defined contribution retirement schemes organized 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 December 31, 2003, 2004 and 2005, the Group's pension cost charged to the consolidated income statements amounted to RMB 121,200,000, RMB 146,500,000 and RMB 228,264,000 respectively.

(ii) Medical insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organized 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 December 31, 2003, 2004 and 2005, the Group's medical insurance contribution charged to the statements of operations amounted to RMB 36,424,000, RMB 47,700,000 and RMB 51,954,000 respectively.

(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 recognized 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 recognized in the balance sheets are as follows:

	2004	2005
	RMB '000	RMB '000
Present value of unfunded post-retirement benefit obligations	731,077	1,970,292
Unrecognized actuarial gain	(85,345)	(731,590)
Post-retirement benefit obligations	645,732	1,238,702
Less: current portion (Note 26)	(27,500)	(35,825)
Long-term portion	618,232	1,202,877

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****33 RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (CONTINUED)**

The costs of post-retirement benefits are recognized under wages, salaries and benefits in the statements of operations as follows:

	2003 RMB 000	2004 RMB 000	2005 RMB 000
Current service cost	13,064	20,849	56,436
Interest cost	27,235	29,857	45,200
Actuarial losses recognized		998	823
Total (Note 8)	40,299	51,704	102,459

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

	2003	2004	2005
Discount rate	5.0%	5.0%	3.5%
Annual rate of increase of per capita benefit payment	1.5%	1.5%	1.5%
Employees turnover rate	3.0%	3.0%	3.0%

34 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 December 31, 2003, 2004 and 2005, the Group's contributions to the housing funds amounted to RMB 65,300,000, RMB94,200,000 and RMB102,472,000 respectively which has been charged to the statements of operations. The staff housing fund payable as at December 31, 2004 and 2005 amounted to RMB75,364,000 and RMB136,510,000 respectively (Note 26). 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 Group 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).

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****34 STAFF HOUSING BENEFITS (CONTINUED)****(b) Staff housing allowances (CONTINUED)**

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 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 December 31, 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 December 31, 2004 and 2005, the staff housing benefit provided under the Staff Housing Allowance Policy amounted to RMB29,253,000 and RMB36,231,000 respectively which has been charged to the statements of operations.

35 DERIVATIVE FINANCIAL INSTRUMENTS

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

(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 December 31, 2004 and 2005, the notional amount of the outstanding interest rate swap agreements was

approximately US\$437 million and US\$661 million respectively: These agreements will expire between 2006 and 2016. For the year ended December 31, 2004 and 2005, a net gain of RMB29,700,000 and RMB78,546,000 respectively arising from changes in the fair value of the interest rate swaps subsequent to initial recognition was recognized directly in the hedging reserve (Note 31).

F-58

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
35 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

(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 July 21, 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 July 1, 2005. As at December 31, 2004 and 2005, the notional amount of the outstanding currency forward contracts was approximately US\$226 million and US\$92 million respectively, which will expire between 2006 and 2010. For the years ended December 31, 2003, 2004 and 2005, a net loss of 58,102,000, a net loss of RMB 46,149,000 and a net gain of RMB82,144,000 respectively arising from changes in the fair value of these foreign currency forwards between the initial recognition up to June 30, 2005 was recognized directly in the hedging reserve (Note 31). The change in the fair value between July 1, 2005 and December 31, 2005 of RMB13,299,000 was recognized in the statements of operations.

(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 December 31, 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 recognized directly in the statements of operations.

F-59

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT***(a) Cash generated from operations*

	Year ended December 31,			(Note 2a)
	2003 RMB 000	2004 RMB 000	2005 RMB 000	2005 USD 000
(Loss)/Profit before income tax	(741,302)	585,972	(577,432)	(71,551)
Adjustments for:				
Depreciation of property, plant and equipment	2,956,031	3,076,585	3,911,722	484,712
Gains on disposals of property, plant and equipment	33,578	(47,819)	(8,073)	(1,000)
Share of results in associates	32,738	50,524	9,030	1,119
Share of results in jointly controlled entities		(45,268)	4,300	533
Amortization of lease prepayments	20,049	18,414	25,219	3,125
Amortization of goodwill and negative goodwill	2,202	2,202		
Net foreign exchange (gains)/loss	77,850	32,207	(414,640)	(51,379)
Gains on disposals of financial assets held for trading	(21,920)	(5,235)		
Fair value gains on financial assets at fair value through profit or loss		(8,839)	(30,877)	(3,826)
Consumption of flight equipment spare parts	86,009	139,711	239,134	29,632
Allowance for obsolescence of flight equipment spare parts	53,336	73,406	(13,930)	(1,726)
Provision for impairment of trade and other receivables	19,229	24,250	25,325	3,138
Provision for post-retirement benefits	40,299	51,704	102,459	12,696
Provision for staff housing allowance	260,463	29,253	36,231	4,489
Provision for aircraft overhaul expenses	63,757	75,897	64,700	8,017
Interest income	(147,846)	(129,020)	(128,700)	(15,948)
Interest expense	860,304	868,339	1,100,357	136,348
Operating profit before working capital changes	3,594,777	4,792,283	4,344,825	538,379
Changes in working capital				
Flight equipment spare parts	(128,713)	(110,725)	(294,969)	(36,550)
Trade receivables	(360,451)	(136,995)	(112,027)	(13,882)
Amount due from related companies	770	(122,253)	(83,459)	(10,342)
Prepayments, deposits and other receivables	197,006	(361,345)	(306,283)	(37,952)
Sales in advance of carriage	225,739	(206,496)	101,490	12,576
Trade payables and notes payables	348,959	509,638	821,222	101,760
Amount due to related companies	432,510	138,968	156,062	19,338
Other payables and accrued expenses	(202,937)	(120,900)	(1,030,806)	(127,730)

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Other long-term liabilities	9,610	8,344	(67,764)	(8,397)
Provision for aircraft overhaul expenses	(11,457)	(91,321)	(110,832)	(13,733)
Post-retirement benefit obligations	(19,455)	(27,093)	(29,370)	(3,639)
Staff housing allowances		(29,253)	(18,306)	(2,269)
	491,581	(549,431)	(975,042)	(120,820)
Cash generated from operations	4,086,358	4,242,852	3,369,783	417,559
 <i>(b) Non-cash transaction</i>				
Investing activities not affecting cash				
Injection of land use right from minority shareholder of a subsidiary			63,063	7,814
Capital contribution to a jointly controlled entity in form of property, plant and equipment			51,872	6,428
Utilization 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	1,163,979	3,525,570	991,640	122,877

F-60

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****37 COMMITMENTS****(a) Capital commitments**

The Group has the following capital commitments:

	2004 RMB 000	2005 RMB 000
Authorized and contracted for:		
Aircraft, engines and flight equipment	8,791,472	47,259,446
Other property, plant and equipment	129,440	96,827
Acquisition of a subsidiary (Note 42)	308,134	390,000
	9,229,046	47,746,273
Authorized but not contracted for:		
Aircraft, engines and flight equipment	3,533,000	723,000
Others property, plant and equipment	2,381,710	13,424,055
	5,914,710	14,147,055
Total	15,143,756	61,893,328

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, are expected to be paid as follows:

	2005 RMB 000
2006	9,006,906
2007	12,703,578
2008	13,523,589
2009	6,256,592
2010	5,768,781
Total	47,259,446

(b) Operating lease commitments

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

	2004 RMB 000	2005 RMB 000
Aircraft, engines and flight equipment		
Within one year	1,024,857	1,633,301

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

In the second year	1,095,792	1,550,209
In the third to fifth year	3,094,495	4,075,691
After the fifth year	550,310	2,015,670
	5,765,454	9,274,871
Land and buildings		
Within one year	19,287	68,739
In the second year	14,874	60,330
In the third to fifth year inclusive	25,401	44,951
After the fifth year	22,139	2,846
	81,701	176,866
Total	5,847,155	9,451,737

F-61

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****38 BUSINESS ACQUISITIONS**

On June 30, 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 businesses 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 July 1, 2005 to December 31, 2005. If the acquisition had occurred on January 1, 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 December 31, 2005.

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

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****38 BUSINESS ACQUISITIONS (CONTINUED)**

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

	Fair value of net assets 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 42 for details regarding a business acquisition completed after the balance sheet but before the approval of these consolidated financial statements.

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****39 RELATED PARTY TRANSACTIONS**

The Group is controlled by CEA Holding, which owns approximately 61.64% of the Company's shares as at December 31, 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.

The other related party transactions are:

Nature of transaction	Related party	Income/ (expenses or payments)		
		2003 RMB 000	2004 RMB 000	2005 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 in 2003, 2004 and 2005	EAGF**	4,096	4,897	5,341
Interest expense on loans at rates of 4.54% per annum in 2003, 4.5% per annum in 2004 and 4.50% per annum in 2005	EAGF**	(6,396)	(1,150)	(14,855)
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*	51,667	93,062	39,247
	CEA Yunnan*	50,442	81,517	38,817
	CEA Wuhan***	28,964	32,396	46,412
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*	(17,776)	(14,181)	(2,374)
	CEA Yunnan*	(10,743)	(22,494)	(6,238)
	CEA Wuhan***	(8,547)	(32,396)	(9,550)
	SDATC**	(24,940)	(8,228)	(7,402)
				(34,225)

China Eastern Air Development (HK) Co., Ltd Shanghai Tourism (HK) Co., Ltd F-64	(6,046)	(13,201)	(21,815)
--	---------	----------	----------

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****39 RELATED PARTY TRANSACTIONS (CONTINUED)**

Nature of transaction With CEA Holding or companies directly or indirectly held by CEA Holding:	Related party	Income/ (expenses or payments)		
		2003 RMB 000	2004 RMB 000	2005 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**	(21,393)	(34,270)	(40,590)
Ticket reservation service charges for utilization of computer reservation system	Travel Sky Technology Limited	(71,884)	(86,311)	(124,677)
Repairs and maintenance expense for ground service facilities	CEA Northwest *		(9,535)	
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes STA EAIEC**	(25,361)	(25,445)	(63,972) (104,853) (6,969)
Lease rental income from operating lease of aircraft	CEA Wuhan Airlines***	31,209	38,239	41,327
Lease rental charges for operating lease of aircraft	CEA Northwest* CEA Yunnan*	(92,466) (27,726)	(199,188) (86,341)	
Supply of food and beverages	Eastern Air (Shantou) Economic Development Co., Ltd. CEACI Shanghai Eastern Air Catering Co., Ltd Qingdao Eastern Air Catering Investment Co., Ltd.	(36,413) (96,984)	(57,623) (188,406) (165,643)	(61,701) (231,759) (184,306) (15,055)

	Xian Eastern Air Catering Investment Co., Ltd.		(50)	(15,079)
	Yunnan Eastern Air Catering Investment Co., Ltd.		(244)	(17,451)
Advertising expense	Eastern Aviation Advertising Service Co., Ltd. (EAASC)	(2,676)	(5,629)	(8,611)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	(3,149)	(14,850)	(8,987)
Rental expenses	Shanghai Eastern Aviation Equipment Manufacturing Corporation	(5,945)	(5,582)	(4,909)

F-65

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****39 RELATED PARTY TRANSACTIONS (CONTINUED)**

- * The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from June 30, 2005. Transactions with CEA Northwest and CEA Yunnan up to June 30, 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 December 31, 2005. On December 8, 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after December 31, 2005.

Nature of transaction	Related party	Income/ (expenses or payments)		2005
		2003	2004	
		RMB 000	RMB 000	RMB 000
With CAAC and its affiliates:				
Civil aviation infrastructure levies paid to CAAC	CAAC	(129,646)	(251,185)	(466,191)
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	(157,278)	(154,086)	(201,653)
With other state-controlled enterprises:				
Take-off and landing fees charges	State-controlled airports	(1,372,896)	(1,579,115)	(2,461,858)
Purchase of aircraft fuel	State-controlled fuel suppliers	(2,128,628)	(3,447,336)	(4,571,155)
Interest income on deposits at an average rates of 0.72% per annum (2004: 0.72% per annum)	State-controlled banks	38,012	15,025	30,948
Interest expense on loans at an average rate of 4.54% per annum (2004: 4.54% per annum)	State-controlled banks	(976,760)	(588,842)	(790,478)
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	(41,284)	(78,232)	(153,528)
Supply of food and beverages		(146,141)	(236,102)	(368,120)

Other
state-control
enterprises
F-66

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****39 RELATED PARTY TRANSACTIONS (CONTINUED)****(b) Balances with related companies**

(i) Amounts due from related companies

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

* The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from June 30, 2005. Transactions with CEA Northwest and CEA Yunnan up to June 30, 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
December 31,
2005. On
December 8,
2005, the
Company
entered into
agreement to
acquire an
additional 56%
equity interest
in CEA Wuhan
and the
acquisitions
were completed
after
December 31,
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.

F-67

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****39 RELATED PARTY TRANSACTIONS (CONTINUED)**

(ii) Amounts due to related companies

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

* The Group acquired the aviation business of CEA Northwest and CEA Yunnan with effect from June 30, 2005. Transactions with CEA Northwest and CEA Yunnan up to June 30, 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
December 31,
2005. On
December 8,
2005, the
Company
entered into
agreement to
acquire an
additional 56%
equity interest
in CEA Wuhan
and the
acquisitions
were completed
after
December 31,
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.

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

	Average interest rate		2004	2005
	2004	2005	RMB 000	RMB 000
Short-term deposits (included in Prepayments, Deposits and other Receivables)				
EAGF	0.7%	0.7%	413,870	475,078
Short-term loans (included in Borrowings)				
EAGF *	4.5%	4.5%	140,765	213,702

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

F-68

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
39 RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) State-controlled banks and other financial institutions

	Average interest rate		2004	2005
	2004	2005	RMB 000	RMB 000
Bank deposits (included in cash and cash equivalents)	0.7%	0.7%	1,814,207	1,196,963
Long-term bank borrowings	3.2%	4.6%	10,736,260	10,438,483

(c) Guarantees by holding company

At December 31, 2005, long-term bank loans of the Group with an aggregate amount of RMB2,122,600,000 (2004: RMB2,122,600,000) were guaranteed by CEA Holding (Note 29).

(d) Key management compensation

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

40 ULTIMATE HOLDING COMPANY

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

41 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 that occurred on November 21, 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.

Table of Contents

**CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
42 POST BALANCE SHEET EVENT**

On December 8, 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, respectively, totaling RMB418,000,000,. Based on an independent valuation conducted on December 31, 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 January 4, 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 March 23, 2006, Wuhan SASAC paid the aforesaid amount to CEA Wuhan.

F-70

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP

Differences between IFRS and U.S. GAAP which have significant effects on the consolidated profit (loss) attributable to equity holders and consolidated net assets of the Group are summarised as follows:

	Note	2003 RMB 000	2004 RMB 000	2005 RMB 000
Consolidated profit (loss) attributable to the Company's equity holders				
As stated under IFRS		(980,675)	456,371	(438,728)
Less: Minority interests	(g)	(116,486)	(135,680)	(28,579)
		(1,097,161)	320,691	(467,307)
U.S. GAAP adjustments:				
Net income (loss) attributable to airline operations of CEA Northwest and CEA Yunnan before June 30, 2005	(a)	(493,075)	24,424	(575,326)
Reversal of difference in depreciation charges and profit (loss) on disposals of fixed assets arising from revaluation of fixed assets	(b)	53,812	64,667	74,664
Rescission of related party lease arrangements	(c)		(133,029)	
Reversal of the retroactive effect of the new overhaul accounting policy adopted in 2005	(d)	173,347	227,510	(471,756)
Change in accounting policy on the recognition of negative goodwill under IFRS 3	(e)			3,452
Others	(f)	6,860	(1,518)	(7,172)
Deferred tax effect on the U.S. GAAP adjustments	(h)	(35,103)	(43,598)	60,122
As stated under U.S. GAAP		(1,391,320)	459,147	(1,383,323)
Basic and fully diluted earnings (loss) per share under U.S. GAAP		(RMB 0.286)	RMB 0.094	(RMB 0.284)
Basic and fully diluted earnings (loss) per American Depository Share (ADS) under U.S. GAAP		(RMB 28.59)	RMB 9.43	(RMB 28.42)
	Note	2003 RMB 000	2004 RMB 000	2005 RMB 000
Consolidated net assets				
As stated under IFRS		6,701,310	7,302,086	6,918,542
Less: Minority interests	(g)	(526,768)	(820,835)	(822,477)
		6,174,542	6,481,251	6,096,065
U.S. GAAP adjustments:	(a)	(1,357,699)	(1,426,741)	413,841

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Shareholders' equity attributable to airline operations of CEA Northwest and CEA Yunnan				
Reversal of net revaluation surplus and difference in depreciation charges, the related accumulated depreciation and profit (loss) on disposals arising from the revaluation of fixed assets	(b)	(544,677)	(480,010)	(405,346)
Reversal of the retroactive effect of the new overhaul accounting policy adopted in 2005	(d)	244,246	471,756	
Change in accounting policy on the recognition of negative goodwill under IFRS 3	(e)			(39,421)
Others	(f)	35,971	34,453	27,281
Deferred tax effect on the U.S. GAAP adjustments	(h)	(9,395)	(52,993)	7,129
As stated under U.S. GAAP		4,542,988	5,027,716	6,099,549

F-71

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP (CONTINUED)

NOTES:

(a) CEA Northwest and CEA Yunnan Acquisitions

As disclosed in Note 38, the Group acquired certain assets and liabilities of the aviation businesses of CEA Northwest and CEA Yunnan effective June 30, 2005. Under IFRS, acquisition accounting was applied to these business combinations such that the businesses are consolidated by the Group from June 30, 2005.

Under U.S. GAAP, these transactions are considered to be combinations of businesses under common control which are accounted for in a manner similar to pooling-of-interests. Consequently, the acquired assets and liabilities of CEA Northwest and CEA Yunnan and their results of operations and cash flows have been included in the condensed consolidated financial statements of the Group at their U.S. GAAP carrying values for all years presented.

Our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP to reflect the effect of the acquisitions of CEA Northwest's and CEA Yunnan's aviation businesses under common control for the relevant periods are set forth in Note 44 to our audited consolidated financial statements included in this annual report.

(b) Revaluation of fixed assets

Under IFRS, the Group's fixed assets are initially recorded at cost and are subsequently restated at revalued amount less accumulated depreciation. The excess depreciation charge arising from the revaluation surplus was approximately RMB63,895,000, RMB57,568,000 and RMB73,803,000 for the year ended December 31, 2003, 2004 and 2005, respectively. The additional gain (loss) arising from the revaluation surplus on disposals of revalued fixed assets was approximately loss of RMB10,083,000, gain of RMB7,099,000 and RMB861,000 for the years ended December 31, 2003, 2004 and 2005, respectively.

Under U.S. GAAP, fixed assets are stated at cost less accumulated depreciation. Accordingly, the revaluation surplus, the related differences in depreciation charges and gain (loss) on disposals are reversed.

(c) Rescission of related party lease arrangements

The Company entered into certain lease arrangements with CEA Northwest and its subsidiary to lease three A310 aircraft and three Bae146 aircraft in 2004 that were subsequently terminated and retroactively rescinded. The impact of the retroactive rescission of the lease arrangements with CEA Northwest was an aggregate settlement by CEA Northwest in the amount of RMB133 million (the Settlement Amount), which represented the operating loss incurred on the operation of the CEA Northwest leased aircraft during 2004, to the Group through the reduction of the Group's inter-company payable accounts with CEA Northwest.

Under IFRS, the Settlement Amount was recognised as non-operating income for the year ended December 31, 2004 and was in effect an extinguishment of a financial liability through a reduction of the Group's inter-company payable accounts with CEA Northwest.

Under U.S. GAAP, the Settlement Amount, through reduction of the Group's intercompany payable account of CE Holding's wholly owned subsidiary, was deemed as the principal shareholder incurring costs on behalf of the Company and was recognized as a capital contribution in accordance with Staff Accounting Bulletin Topic 5-T (SAB Topic 5-T). Any cost incurred by the principal shareholder on behalf of its subsidiary are required to be reflected in the subsidiary's financial statements as an expense and a corresponding capital contribution unless the principal shareholders' actions are completely unrelated to its position as a shareholder under SAB Topic 5-T.

F-72

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP (CONTINUED)

(d) Retroactive application of the new overhaul accounting policy adopted in 2005

Prior to the adoption of the revised IAS 16 (Note 2), the Group expensed overhaul costs on owned and finance leased aircraft as incurred. Upon the adoption of the revised IAS 16 effective January 1, 2005, the Group capitalized overhaul costs as a separate component of the fixed assets carrying value to be depreciated over the estimated period between overhauls on a straight line basis. Upon the completion of an overhaul, any remaining balance of the previous overhaul will be derecognised and charged to the consolidated statements of operations. The adoption of the revised IAS 16 has been applied retrospectively to all years presented.

Under U.S. GAAP, the capitalization of overhaul costs incurred as a separate component of fixed assets is an acceptable alternative. Therefore, the Group also changed its accounting policy on overhaul costs for owned and financed lease aircrafts in the U.S. GAAP condensed consolidated financial statements as such policy was considered to be preferable. Under U.S. GAAP, the effect of a change in accounting policy is recognized in the period of the change by including the cumulative effect of the change to the new accounting policy.

(e) Recognition of negative goodwill

Under U.S. GAAP, in a business combination in which the fair value of the identifiable net assets acquired exceeds the cost of the acquired business, the excess over cost should reduce, on a pro rata basis, amounts assigned to all of the acquired assets, including purchased research and development assets required to be written off, with the exception of financial assets (other than investments accounted for by the equity method), assets to be disposed of by sale, deferred tax assets, prepaid assets related to pension or other post-retirement benefit plans, and any other current assets. Any remaining negative goodwill is recognised as an extraordinary gain.

As the result of the adoption of IFRS 3, the Group's negative goodwill balance of RMB42,873,000 at January 1, 2005 is derecognized with a corresponding adjustment to the opening balance of retained earnings. From January 1, 2005 onwards, IFRS 3 requires the Group to recognize immediately in the statements of operations the excess of the net fair value of those items acquired over the cost of the acquisition.

(f) Other U.S. GAAP adjustments

The application of U.S. GAAP differs in certain other respects from IFRS. Under U.S. GAAP: i) recognition of gain on sale and leaseback transactions is deferred and amortized, ii) transitional obligations for post retirement benefits are amortized over the average remaining service period of active plan participants, and iii) amortization of goodwill ceased on December 31, 2003.

(g) Minority interest

Under IFRS, minority interest is classified in the equity section of the consolidated balance sheets and included in the consolidated statements of changes in owners' equity. Profit (loss) attributable to the minority interest is presented as a component of the Group's total profit (loss) for the year. U.S. GAAP does not classify minority interest in the equity section of the consolidated balance sheets, and consequently does not include minority interest in the consolidated statement of changes in owners' equity. Under U.S. GAAP, profit (loss) attributable to minority interest is presented as a separate item before net income (loss).

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP (CONTINUED)

(h) Deferred tax effect

These represent the corresponding deferred tax effect as a result of the adjustments stated in (b) to (f) above.

Under IFRS, 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.

Under U.S. GAAP, a valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or, all of, the deferred tax assets will not be realised. More likely than not is defined as a likelihood of more than 50%. In determining whether a valuation allowance is necessary, a company may not generally consider future anticipated income in measuring the valuation allowance if that company has a history of losses. However, as confirmed by the IASB as part of the convergence project with FAS 109, the Group believes that more likely than not under U.S. GAAP and probable under IFRS have the same meaning for the application of IAS 12 and SFAS 109. Therefore this difference in the wording of U.S. GAAP and IFRS does not have any impact on the Group's net assets or net income (loss), and the Group has therefore not included a reconciling item for this difference.

(i) Consolidation based on variable interest model

IFRS focuses on the concept of control to determine whether an entity should be consolidated. Under U.S. GAAP, a dual consolidation decision model exists. Under this model, consolidation decisions are evaluated first based on the variable interest model then the traditional consolidation model. Therefore, under U.S. GAAP, an entity will consolidate a variable interest entity (VIE) which it does not control but absorbs the majority of the VIE's expected losses or returns. FIN 46, Consolidation of Variable Interest Entities requires certain VIEs to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

The Group completed its FIN 46 assessment, including the review of arrangements with associates as part of the preparation of its consolidated financial statements and concluded that there were no variable interest entities for which the Group absorbs the majority of losses or returns that would have any material impact on its financial position or results of operations.

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP (CONTINUED)

(j) CEA Yunnan air crash

In November 2004, an aircraft of CEA Yunnan crashed in Baotau, Neimonggol, China. As the result of this air crash, CEA Yunnan was subject to exposures including the loss of aircraft, claims filed by the families of the deceased passengers and crew, other third party liabilities including damage to park facilities, injuries and auxiliary costs. When the Company acquired CEA Yunnan in May 2005, the air crash related exposures were not transferred with other assets and liabilities of the aviation businesses. Rather, such exposures were transferred to CEA Holding.

Under IFRS, insurance recovery is not recognized until virtually certain and the air crash has no impact on the Group's consolidated financial statements as acquisition accounting was applied (Note 38). However, under U.S. GAAP, outstanding claims are accrued net of insurance recovery that are equally probable and determinable. In addition, any costs to be incurred by CEA Holding for claims in excess of insurance recovery will be deemed as the principal shareholder incurring costs on behalf of the Company and will be recognized as expenses and a capital contribution in accordance with SAB Topic 5-T. There are no such capital contribution recorded to date.

(k) New accounting pronouncements

In December 2004, the FASB revised Statement No. 123 (FAS 123 R). FAS 123 R, *Share-Based Payment*, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. FAS 123 R is effective for fiscal periods beginning after June 15, 2005. The Group is evaluating the transition provisions allowed by FAS 123 R. The Group does not expect the adoption of FAS 123 R to have a material impact on the Group's financial position or operational results.

On November 24, 2004, the FASB issued Statement No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4 (FAS 151). FAS 151 requires that abnormal amounts of idle capacity and spoilage costs be excluded from the cost of inventory and expensed when incurred. The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect the adoption of FAS 151 to have a material impact on the Group's financial position or results of operation.

On December 15, 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets*, an amendment APB Opinion No. 29 (FAS 153). FAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Group does not expect the adoption of FAS 153 to have a material impact on the Group's financial position or results of operation.

F-75

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP (CONTINUED)

(k) New accounting pronouncements (Continued)

On March 29, 2005, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). This bulletin provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS 123 R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS 123 R, the modification of employee share options prior to adoption of FAS 123 R and disclosures in Management's Discussion and Analysis subsequent to adoption of FAS 123 R. SAB 107 will be effective when a registrant adopts FAS 123 R. The Group does not expect the adoption of SAB 107 to have a material impact on the Group's financial position or operation results.

In May 2005, the FASB issued Statement No.154, Accounting Changes and Error Corrections (FAS 154), which replaces APB Opinions No. 20 Accounting Changes, and FASB Statement No. 3, Reporting Accounting Change in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Group does not expect the adoption of FAS 154 to have a material impact on the Group's financial position or operational results.

F-76

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP**

The condensed consolidated financial statements prepared in accordance U.S. GAAP for all years presented have been retroactively restated as if CEA Northwest and CEA Yunnan had always been part of the Group.

Condensed consolidated statements of operations

	Note	2003 RMB 000	2004 RMB 000	2005 RMB 000
Revenues	(a)	19,553,557	28,208,342	30,894,678
Other operating income	(b)	50,302	275,185	245,279
		19,603,859	28,483,527	31,139,957
Operating expenses				
Commissions		(526,429)	(809,972)	(990,745)
Aircraft fuel		(4,222,762)	(7,079,632)	(9,934,425)
Take-off and landing charges		(3,066,210)	(3,964,703)	(4,201,851)
Ground service and other charges		(64,662)	(99,296)	(115,516)
Civil aviation and infrastructure levies			(358,667)	(538,320)
Food and beverages		(711,159)	(934,795)	(1,081,023)
Wages, salaries and benefits		(2,066,749)	(2,750,242)	(2,833,663)
Aircraft maintenance		(2,024,768)	(2,413,910)	(1,236,093)
Aircraft depreciation and operating leases		(3,687,806)	(4,296,767)	(7,249,590)
Other depreciation, amortisation and operating leases		(608,242)	(618,807)	(688,139)
Ticket reservation fee		(235,735)	(290,994)	(325,924)
Insurance		(249,631)	(216,850)	(172,554)
Office, administrative and other expenses		(1,986,317)	(2,709,201)	(2,755,350)
Total operating expenses		(19,450,470)	(26,543,836)	(32,123,193)
Operating profit (loss)		153,389	1,939,691	(983,236)
Interest income		181,936	166,340	114,441
Finance costs, net		(1,414,969)	(1,279,106)	(808,554)
Share of results of associates		(31,759)	(49,007)	(9,030)
Share of results of jointly controlled entities			45,268	(4,300)
(Loss) profit before income taxes and minority interest		(1,111,403)	823,186	(1,690,679)
Income tax (expense) benefit	(c)	(166,283)	(205,965)	344,220
(Loss) profit after taxation before minority interest		(1,277,686)	617,221	(1,346,459)
Minority interests		(113,634)	(158,074)	(36,864)
(Loss) profit attributable to shareholders		(1,391,320)	459,147	(1,383,323)
			97,339	

Dividend payable to equity holders of the Company
attributable to the year

Earning (loss) per share

basic and diluted

(0.29)

0.09

(0.28)

F-77

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP (CONTINUED)*****Condensed consolidated balance sheets***

	Note	2004 RMB	2005 RMB
ASSETS			
Current assets			
Cash and cash equivalents		3,038,938	1,864,001
Trade receivables		1,827,464	1,918,409
Amounts due from related companies	(e)	422,503	205,712
Flight equipment spare parts		698,242	1,034,641
Prepayments, deposits and other receivables		776,216	997,271
Derivative assets			53,036
Total current assets		6,763,363	6,073,070
Non-current assets			
Property, plant and equipment	(d)	38,869,590	38,811,836
Construction in progress		236,585	240,884
Lease prepayments		828,808	972,771
Investments in associates		639,015	629,746
Investments in jointly controlled entities		52,948	100,520
Available-for-sale financial assets		39,546	40,802
Advance payments on acquisition of aircraft		2,728,262	9,072,673
Other long-term assets		2,965,003	2,705,558
Deferred tax assets		395,465	499,544
Intangible assets		(42,873)	
Derivative assets		11,571	70,886
Total assets		53,487,283	59,218,290

LIABILITIES AND OWNERS EQUITY

Current liabilities			
Trade payables and notes payables		1,997,318	3,394,898
Sales in advance of carriage		734,389	823,149
Amounts due to related companies	(e)	4,098,242	295,030
Provision for aircraft overhaul expenses, current portion		82,643	15,589
Other payables and accrued expenses		6,437,048	5,986,578
Tax payable		241,710	47,259

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

Obligations under finance leases, current portion	1,603,429	2,428,037
Borrowings, current portion	11,424,246	18,554,630
Derivative liabilities		34,844
Total current liabilities	26,619,025	31,580,014
Non-current liabilities		
Obligation under finance leases	9,793,187	8,180,460
Provision for aircraft overhaul expenses	334,298	388,410
Post-retirement benefit obligations	999,481	1,103,492
Borrowings	8,318,918	9,790,116
Other long term liabilities	704,397	599,425
Deferred tax liabilities	738,669	618,204
Derivative liabilities	120,384	25,770
Total liabilities	47,628,359	52,285,891

F-78

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP (CONTINUED)**

	2004 RMB	2005 RMB
Commitment and contingencies		
Minority interests	831,208	832,850
Share capital	4,866,950	4,866,950
Reserves	160,766	1,232,599
Owners' equity	5,027,716	6,099,549
Total liabilities and owners' equity	53,487,283	59,218,290

Condensed cashflow statements

	2003 RMB 000	2004 RMB 000	2005 RMB 000
Net cash inflow (outflow) from			
Operating activities	3,052,326	5,371,326	1,008,155
Investing activities	(7,435,568)	(2,659,099)	(10,369,094)
Financing activities	4,282,197	(2,216,175)	8,186,002
Increase (decrease) in cash and cash equivalents	(101,045)	496,052	(1,174,937)
Cash and cash equivalents at beginning of year	2,643,931	2,542,886	3,038,938
Cash and cash equivalents at end of year	2,542,886	3,038,938	1,864,001

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

Condensed consolidated statements of changes in equity

	Total RMB 000
Balance at January 1, 2003	5,993,667
Cash flow hedges, net of tax	(49,654)
Distribution to owner	(9,705)
Loss for the year	(1,391,320)
 Balance at December 31, 2003	 4,542,988
 Balance at January 1, 2004	 4,542,988
Cash flow hedges, net of tax	(13,982)
Rescission of related party lease arrangement	133,029
Contribution from owner	(93,466)
Profit for the year	459,147
 Balance at December 31, 2004	 5,027,716
 Balance at January 1, 2005	 5,027,716
Net liabilities assumed by CEA Holding (note i)	2,379,048
Recognition of deferred tax asset (note ii)	36,860
Cash flow hedges, net of tax	136,587
Dividend relating to 2004	(97,339)
Loss for the year	(1,383,323)
 Balance at December 31, 2005	 6,099,549

Notes:

- (i) In connection with the aforementioned CEA Northwest and the CEA Yunnan Acquisitions as described in Note 43(a), certain assets and liabilities of CEA Northwest

and CEA Yunnan not acquired by the Group were transferred to CEA Holding. Also, as a result of the CEA Northwest and the CEA Yunnan Acquisitions, the tax losses attributable to the aviation operations of CEA Northwest and CEA Yunnan are no longer available for utilization against future taxable income of such operations. Accordingly, the net assets not acquired and the deferred tax assets arising from such tax losses and related valuation allowance was eliminated as a reduction against equity.

- (ii) In connection with the CEA Northwest and the CEA Yunnan Acquisitions, the property, plant and equipment of CEA Northwest and CEA Yunnan were revalued as of

December 31, 2004 according to the relevant PRC rules and regulations. The revalued amount serves as the tax base for future years. Such revaluations are not recorded under U.S. GAAP. However, a deferred tax asset is recognized for the tax deductibility of the resulting net revaluation surplus with a corresponding credit to equity under U.S. GAAP.

F-80

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

The following key financial statement disclosures are presented on a U.S. GAAP basis.

(a) Revenues

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000
Revenues			
Traffic revenues			
Passenger	15,342,490	22,692,368	24,780,599
Cargo and mail	3,558,610	4,879,136	5,246,779
Total traffic revenues	18,901,100	27,571,504	30,027,378
Commission income	68,095	123,281	126,194
Ground service income	504,670	717,573	831,143
Cargo handling income	164,850	227,806	298,488
Rental income from operating subleases of aircraft	31,209	204,721	183,260
Others	185,693	111,837	201,345
	19,855,617	28,956,722	31,667,808
Less: Business tax	(302,060)	(748,380)	(773,130)
	19,553,557	28,208,342	30,894,678

(b) Other operating income

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000
Other operating income			
Government subsidies	58,448	73,506	193,069
Insurance compensation on crash of aircraft		190,181	
Net fair value (losses) gains on financial instruments	(8,146)	11,498	52,210
	50,302	275,185	245,279

(c) Income tax

The aviation business of CEA Northwest and CEA Yunnan were subject to PRC income tax at 33% during 2003, 2004 and up to June 30, 2005. Subsequent to the acquisitions of the aviation businesses of CEA Northwest and CEA Yunnan by the Group on June 30, 2005, the aviation businesses of CEA Northwest and CEA Yunnan became divisions of the Group and are subject to PRC income tax at the rate of 15%.

Income tax benefit (expense) consisted of:

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

PRC income tax:			
Company and subsidiaries	(131,207)	(244,406)	81,734
Deferred tax			
Current year	(35,076)	38,441	137,529
Adjustment for change in applicable tax rate for airline operations of CEA Northwest and CEA Yunnan			124,957
	(166,283)	(205,965)	344,220
Additional income taxes were allocated as follows:			
Owners' equity, for deferred tax asset recognized in connection with the tax deductibility resulting from net revaluation surplus			36,860

F-81

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(c) Income tax (Continued)

	Year ended December 31,		
	2003 RMB 000	2004 RMB 000	2005 RMB 000
Profit (loss) before taxation	(1,111,403)	790,015	(1,690,679)
Adjusted:			
Share of results of associates and jointly controlled entities	31,759	3,739	13,330
	(1,079,644)	793,754	(1,677,349)
Tax calculated at enacted tax rate of 15%	161,947	(119,063)	251,602
Effect attributable to airline operations of CEA Northwest and CEA Yunnan	7,327	(32,012)	17,259
Effect of change in the income tax rate applicable to the aviation operations of CEA Northwest and CEA Yunnan			124,957
Effect attributable to subsidiaries charged at tax rate of 33%	(4,117)	(17,578)	18,334
Effect attributable to subsidiaries with income tax exemption			33,852
Income not subject to taxation	243	245	4,462
Expenses not deductible for tax purposes	(77,013)	(41,891)	(109,329)
Reversal of income tax provision made in prior years as a result of tax clearance with local tax bureau			81,807
Unrecognised tax losses of the Company	(258,515)		(86,074)
Utilisation of previously unrecognised tax losses		6,395	
Others	3,845	(2,061)	7,350
Tax benefit (charge)	(166,283)	(205,965)	344,220

F-82

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(c) Income tax (Continued)

The net deferred tax assets (liabilities) as of December 31, 2004 and 2005 were made up of the following taxation effects:

	December 31,	
	2004	2005
	RMB 000	RMB 000
Deferred tax assets:		
Tax losses carried forward	349,562	451,659
Provision for obsolete flight equipment spare parts	54,014	33,192
Repair cost on flight equipment	119,039	64,454
Provision for post-retirement benefits	95,252	185,102
Other accrued expenses and derivative financial instruments	120,704	139,949
	738,571	874,356
Less: Valuation allowance	(252,120)	(338,194)
Total deferred tax assets	486,451	536,162
Deferred tax liabilities:		
Provision for aircraft overhauls	(106,128)	(143,517)
Depreciation and amortization	(723,527)	(511,305)
Total deferred tax liabilities	(829,655)	(654,822)
Net deferred tax liabilities	(343,204)	(118,660)
Representing:		
Net deferred tax assets current portion		
Net deferred tax assets non-current portion	395,465	499,544
Net deferred tax liabilities current portion		
Net deferred tax liabilities non-current portion	(738,669)	(618,204)
	(343,204)	(118,660)

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. As of December 31, 2004 and 2005 the Group had tax losses carried forward of approximately RMB 2.3 billion and RMB3.0 billion, respectively, which will expire between 2006 and 2010.

In assessing the realizability of net deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences become

deductible and tax losses utilized. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable profits in making this assessment. Based upon the projections for future taxable profits over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realized the benefits of these deductible differences and tax losses.

During the years ended December 31, 2004 and 2005, the valuation allowance (decreased) increased by RMB(6,395,000) and RMB86,074,000, respectively.

F-83

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(d) Property, plant and equipment

	December 31,	
	2004	2005
	RMB 000	RMB 000
Aircraft and flight equipment		
owned	33,307,896	42,748,323
held under finance leases	18,475,692	22,884,972
Buildings	2,718,911	2,445,683
Other property, plant and equipment	2,894,401	3,454,344
	57,396,900	71,533,322
Less: Accumulated depreciation and amortization	(18,527,310)	(32,721,486)
	38,869,590	38,811,836

Finance leases

The Group is obligated under finance leases covering certain aircraft that expire at various dates during the next 12 years. At December 31, 2004 and 2005, the gross amount of aircraft and related accumulated amortization recorded under finance leases were as follows:

	December 31,	
	2004	2005
	RMB 000	RMB 000
Cost	18,475,692	22,884,972
Less: Accumulated depreciation and amortization	(5,404,935)	(9,524,421)
	13,070,757	13,360,551

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(e) Related party transactions

Nature of transaction	Related party	Income/ (expenses or payments)		
		2003 RMB 000	2004 RMB 000	2005 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 & 2003: 0.72% per annum)	EAGF*	10,507	6,233	5,341
Interest expense on loans at rate of 4.50% per annum (2004 & 2003: 4.54% per annum)	EAGF*	(14,692)	(15,744)	(14,855)
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 Wuhan **	28,964	32,396	46,412
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 Wuhan**	(8,547)	(32,396)	(9,550)
	SDATC*	(24,940)	(8,228)	(7,402)
	China Eastern Air Development (HK) Co., Ltd			(34,225)
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment	Shanghai Tourism (HK) Co., Ltd	(6,046)	(13,201)	(21,815)
	EAIEC*	(21,393)	(34,270)	(40,590)
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited F-85	(71,884)	(86,311)	(124,677)

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(e) Related party transactions (Continued)

Nature of transaction	Related party	Income/ (expenses or payments)		
		2003 RMB 000	2004 RMB 000	2005 RMB 000
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes STA EAIEC*	(25,361)	(25,445)	(63,972) (104,853) (6,969)
Lease rental income from operating lease of aircraft	CEA Wuhan Airlines**	31,209	38,239	41,327
Supply of food and beverages	Eastern Air (Shantou) Economic Development Co., Ltd. CEACI Shanghai Eastern Air Catering Co., Ltd. Qingdao Eastern Air Catering Investment Co., Ltd. Xian Eastern Air Catering Investment Co., Ltd. Yunnan Eastern Air Catering Investment Co., Ltd.	(36,413) (112,104) (2,518) (7,416) (32,062)	(57,623) (188,406) (185,575) (14,291) (15,947) (36,552)	(61,701) (231,759) (184,306) (15,055) (15,079) (17,451)
Advertising expense	CAASC	(2,676)	(5,629)	(8,611)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	(5,309)	(19,276)	(8,987)
Rental expenses	Shanghai Eastern Aviation Equipment Manufacturing Corporation	(5,945)	(5,582)	(4,909)

* 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 December 31, 2005. On December 8, 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after December 31, 2005.

F-86

Table of Contents

CHINA EASTERN AIRLINES CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S.
GAAP (CONTINUED)

(e) Related party transactions (Continued)

Nature of transaction	Related party	Income/ (expenses or payments)		
		2003 RMB 000	2004 RMB 000	2005 RMB 000
With CAAC and its affiliates:				
Civil aviation infrastructure levies paid to CAAC	CAAC	(210,651)	(358,667)	(466,191)
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	(217,653)	(208,098)	(201,653)
With other state-controlled enterprises:				
Take-off and landing fees charges	State-controlled airports	(2,017,543)	(2,365,872)	(2,461,858)
Purchase of aircraft fuel	State-controlled fuel suppliers	(3,188,283)	(4,240,133)	(4,571,155)
Interest income on deposits at an average rates of 0.72% per annum (2004 & 2003: 0.72% per annum)	State-controlled banks	49,123	19,371	30,948
Interest expense on loans at an average rate of 4.54% per annum (2004 & 2003: 4.54% per annum)	State-controlled banks	(1,383,274)	(833,910)	(790,478)
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	(66,443)	(124,565)	(153,528)
Supply of food and beverages	Other state-control enterprises	(280,522)	(322,726)	(368,120)

F-87

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP (CONTINUED)****(e) Related party transactions (Continued)****(ii) Balances with related companies****(a) Amounts due from related companies**

Company	2004 RMB 000	2005 RMB 000
China Eastern Air Development (HK) Co., Ltd	4,928	66,457
CEA Holding	23,835	57,773
SDATC*	39,485	43,223
Shanghai Tourism (HK) Co., Ltd		23,177
CEA Wuhan **		3,541
EAIEC*		4,956
STA		4,927
Other related companies	354,255	1,658
Total	422,503	205,712

* 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 December 31, 2005. On December 8, 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after December 31, 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.

F-88

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP (CONTINUED)****(e) Related party transactions (Continued)****(ii) Balances with related companies (Continued)****(b) Amounts due to related companies**

Company	2004 RMB 000	2005 RMB 000
EAIEC*	(57,148)	(90,123)
EAGF*	(175,500)	(4,328)
CEA Wuhan **	(19,063)	(80,407)
STA		(8,491)
CEA Holding	(3,705,929)	(94,216)
Other related companies	(140,602)	(17,465)
Total	(4,098,242)	(295,030)

* 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 December 31, 2005. On December 8, 2005, the Company entered into agreement to acquire an additional 56% equity interest in CEA Wuhan and the acquisitions were completed after December 31, 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.

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

	Average interest rate		2004 RMB 000	2005 RMB 000
	2004	2005		
Short-term deposits (included in Prepayments, deposits and other receivables)				
EAGF	0.7%	0.7%	503,884	475,078
Short-term loans (included in Borrowings)				
EAGF *	4.5%	4.5%	315,265	213,702

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

Table of Contents**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****44 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE U.S. GAAP (CONTINUED)****(e) Related party transactions (Continued)****(ii) Balances with related companies (Continued)****(d) State-controlled banks and other financial institutions**

	Average interest rate		2004	2005
	2004	2005	RMB 000	RMB 000
Bank deposits (included in cash and cash equivalents)	0.7%	0.7%	2,407,866	1,196,963
Long-term bank borrowings	3.2%	4.6%	11,774,396	10,438,483

(iii) Guarantees by holding company

The long-term bank loans of the Group guaranteed by CEA Holding are RMB2,122,600,000 as at December 31, 2004 and 2005.

F-90