

CHAIRMAN'S STATEMENT



Li Zhongming
Chairman

Dear Shareholders,

I am pleased to announce the report on the operating results of China Eastern Airlines Corporation Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2000. On behalf of all the staff of the Group, I would like to extend my sincere thanks to the shareholders for their support of the Group.

In 2000, the global economy is improving. Positively affected by the European economy and economy of the United States, the Asian economy continues to recover. Due to the continuing economic recovery of the neighbouring countries and the encouraging macroeconomic policies of the Chinese government, the Chinese economy, on the whole, performed well. The government adopted various measures to stimulate domestic demand, resulting in the growth of the PRC economy. The Group faced increased competition on its domestic and international routes. The Group pro-actively took a series of countermeasures, including adjusting its capacity structure, improving passenger and cargo allocation capacity, adjusting its routes and route network, increasing flight monitoring, reducing or suspending routes with low loading factors, increasing marketing activities, improving market competitiveness on international routes and opening markets through strengthening joint operation of routes and implementation of code sharing, and ensuring traffic revenues by formulating flexible sales policies and regulating the sales agent market, strengthening research and development of e-commerce and continuously improving the on-line ticket reservation and payment system and accelerating the development of cargo business. To meet the increased demand of cargo traffic, the Group converted one MD11 passenger aircraft into a cargo aircraft and wet leased a Boeing 747-200 cargo aircraft. The Group increased its cargo flight frequency from Shanghai to Chicago, Paris and Seoul and opened new cargo routes from Shanghai to Hong Kong and New York.

As at 31 December 2000, the total traffic volume of the Group amounted to 2.137 billion tonne-kilometers, an increase of 15.76% as compared with the same period last year; the numbers of passengers carried were 8.9707 million, an increase of 0.361 million passengers as compared with the same period last year; cargo traffic volume was 0.904 billion tonne-kilometers, an increase of 31.20% as compared to the same period last year.

In 2000, the increase in the Group's revenue from its main business was primarily attributed to an increase in the Group's traffic volume. There was an increase over 1999 in passenger traffic volume on higher revenue routes. Besides, the cargo market is growing rapidly and the measures taken by the Group to increase its market share in the cargo traffic effectively increased cargo volume and cargo traffic revenue.

In 2000, the Group's total operating costs increased. The increase was primarily due to the increase in domestic and international aviation fuel prices, with the increase in domestic aviation fuel prices surpassing 60%. The replacement of the Group's fleet with new aircraft and engines caused aircraft depreciation and operating leases expenses to increase.



In addition, the Group has a significant percentage of Japanese Yen denominated liabilities. Due to the depreciation of the Japanese Yen in 2000, the Group booked a foreign currency exchange gain of RMB120 million.

In summary, according to the International Accounting Standards, the turnover of the Group for 2000 amounted to RMB11.220 billion, representing an increase of 10.40% over 1999. The Group earned a net income of RMB176 million, representing a gain of RMB0.036 per share.

According to PRC Accounting Regulations, turnover of the Group for 2000 was RMB11.822 billion, representing an increase of 10.80% over 1999. The Group earned a net income of RMB20.08 million, representing a gain of RMB0.004 per share.

Outlook for the Year 2001

The Group would like to caution readers that this 2000 annual report contain, inter alia, forward-looking statements, such as certain forward-looking statements on the Asian and Chinese economies and aviation markets. These forward-looking statements are subject to numerous uncertainties and risks.

The Group believes that, as a whole, it will face a relatively favourable economic climate, both domestically and internationally during 2001. Internationally, peace and development remain potent forces for the new millennium. The development of the global trade has sped up the integration of global economy. In particular, the prospects are for the Asian economy to continue its growth and increased investment and tourism will promote the continued growth of the Asian airline market. However, on the other hand, the economic conditions in the United States and Japan will continue to have an extremely significant impact on world economic trends.

2001 will be the first year of implementation of the Tenth Five Year Plan in China. The national economy will continue its stable growth and the Chinese government will uphold its strategy of expanding domestic demand, strengthening and improving macro control and promoting strategic adjustments to the economic structure. Following the strategy to develop Western China, certain hub airports in the region will be improved or expanded and several feeder airports built, thus presenting new business opportunities to the air transport industry.

As China may enter into the World Trade Organisation this year, the country's participation in the process of economic globalisation will intensify and become more wide-ranging. The resulting expansion of trade and increase in commercial activity will cause the aviation market to flourish. The relationship between the domestic civil aviation industry and the world economy as well as the relationship between the domestic civil aviation industry and the civil aviation industries of other countries will become closer.

Notwithstanding the aforesaid, the overall prospects for civil aviation development in China are positive as there have been improvements in the environment and positive elements are relatively numerous. China, with its extensive territory, large population and rich tourist resources, holds potential for the development of air traffic and its growth prospects are vast. The Chinese civil aviation industry is growing steadily and at a faster rate than the industry internationally. The efforts to reform civil aviation are continuously increasing, the separation between government and enterprises is continuously intensifying, the strategic restructuring of air carriers is developing and the balance between market demand and supply is gradually improving. According to predictions by Boeing and Airbus, civil aviation traffic in China will grow at an average annual rate of 8.6% over the next 20 years.

The Group believes that the operation of its European and American routes will maintain its growth, the operation of its Asian and regional routes will develop steadily and, with the expansion of its aircraft fleet, the conditions for increasing flight frequency on domestic routes, increasing market share and developing new international markets, will be created. Moreover, the Company will take advantage of such large-scale events as the 2001 APEC meeting and the World University Games, traditional holidays and festivals and the peak traffic seasons, to timely adjust and allocate capacity, actively develop the passenger and cargo markets, comprehensively increase the Company's traffic volume and boost the Company's traffic revenues.

In view of current market demand, the country's economic and social development and the macro political objectives, demand in the aviation market will continue to increase in 2001. With the adjustments to the macro control policies on, and the strengthening of the supervision over, the aviation market by the government, competition in the domestic market will also become more regulated and orderly.

The Civil Aviation Administration of China (“CAAC”) will strengthen the government’s monitoring functions, fully develop the potential of the aviation market and continuously increase reform efforts. In 2001, it will further regulate the air transport market, improve domestic joint operation with other airlines, strengthen the control of the distribution of jointly operated routes, regulate route pricing, steadily adjust domestic route pricing policies, regulate the airline ticket sales agent market, and increase the revenue of various enterprises. In line with the State’s policy to develop Central and Western China, it will improve the aviation infrastructure in those regions, pay special attention to the development of the feeder traffic market and actively develop feeder traffic. It will continue to promote the strategic restructuring of the asset structure of the Chinese civil aviation industry and, in accordance with the principle that enterprises should make their own decisions under government guidance, it will establish large air carrier groups and increase the competitiveness of China’s civil aviation industry on the international market. It will establish a new civil aviation administration structure and strive to comprehensively improve the environment in which domestic airlines carry on their business.

The Group believes that the policy measures adopted by the CAAC and the stable domestic macro environment will have a positive impact on the Company’s business environment. In response to the business environment and aviation market conditions which it will face in 2001, the Company plans to focus on the following areas to improve its competitiveness:

- (1) **Flight safety:** in 2000 the Company again posted a safe flight year. The Company’s objective this year is to insist again on safety first and to discharge its safety responsibilities; insist on strict adherence to standards and strictly implement safety controls; solidify safety results, gradually build up the capacity to maintain the whole Airbus series and some Boeing aircraft, and make efforts to realize a safe flight year.



- (2) **Quality service:** in 2000 the Group received the “Five-Star Diamond” Award, the American Association of Hospitality Services’ highest award for quality service. The Company will strengthen quality control over its transport services, comprehensively improve its management level and service quality, make efforts to increase the punctuality of its flights and seek to establish a sound and effective system for ensuring service quality.

- (3) **Fleet Development:** in the second half of 2001, the Company will acquire three Airbus A320 aircraft on finance leases and four Airbus A319 aircraft on operating leases. The short-term lease on two ATR-72 aircraft and one Boeing 747-200 cargo aircraft will expire in May 2001. The Company will consider a plan to bring in a small number of feeder aircraft. The Company plans to use other methods to bring in large cargo aircraft in order to continuously maintain its capacity in the cargo market. The Company's fleet in 2001 will increase over that of last year and the Company will rationally allocate its capacity. The specific measures in this direction are set forth below:
1. Strengthening monitoring of flights, improving the arrangement of flights, increasing flight frequency on profitable routes, increasing route revenue levels, and rationally adjusting capacity use and route distribution, thus causing the Company's limited capacity to generate the greatest earnings.
 2. Adjusting international routes, with the focus being on adjusting China to Korea and China to Europe routes, opening new routes from Shanghai to Korea and from Nanjing to Korea, giving a niche to its long distance routes and increasing competitiveness on intercontinental routes, increasing flight frequency on middle distance routes in the Asian region, increasing development efforts in the Asia-Pacific region, placing emphasis on improving quality on Hong Kong routes and staying alert for the opportunity to open routes to Macau and Taipei; optimizing the layout of the domestic route network, solidifying and increasing market share in the East China region, and Shanghai in particular, and increasing aircraft daily utilization rates, load factors and revenue levels.
 3. Attaching importance to feeder traffic, launching scheduled feeder flights, strengthening flight allocation for holidays and festivals, concentrating capacity to ensure traffic on popular routes and during peak seasons, actively arranging extra flights and charters and cultivating new sources of financial growth.
 4. Promoting development of the cargo business. The Group will remain focused on strengthening its cargo traffic. At present, the Group operates 3 MD11 cargo aircraft and one Boeing 747-200 cargo aircraft. The Group will respond to demand in the cargo market by bringing in cargo aircraft at the appropriate time; actively developing cargo markets to ensure the steady growth in cargo operations; take advantage of the existing strengths of China Cargo Airlines Ltd. domestic route network, strengthen transit traffic, maintain continued development of the domestic route network and continuously adjust strategies in line with competition on international cargo routes.

- (4) **Marketing and sales:** the Company already has code-sharing arrangements with American Airlines, All Nippon Airways, Korean Airlines, Asiana Airlines, Qantas Airways and Air France. This year the Company will further improve the existing code-sharing arrangements and strengthen cooperation with other airlines, including, strengthening cooperation with American Airlines on China-United States routes and renovating business class on the Company's MD11 aircraft to increase the competitiveness of its business class routes to and from the United States. The Company will strengthen its joint operation arrangements with domestic airlines and rectify the sales agent market; actively increase the quality of service to frequent flyers, stabilize and expand long-term passenger sources. The Company has entered into cooperation agreement with Cathay Pacific in its "Asia Miles" program and will implement the agreement by the end of April this year. The Company will further study the feasibility of joining an airline alliance to expand its market coverage and increase its market share. In 2000, the Company launched the "China Eastern Airline - Great Wall" co-branded credit card jointly with the Bank of China providing such services as free and discounted airline tickets, room reservations and increased baggage allowances. The Company has launched an on-line membership application system with an Internet company and this year will cooperate with an even larger number of Internet companies to provide various services to passengers.
- (5) **E-commerce:** the Company will continue to expand the use of its On-line Ticket Reservation and Payment System, an e-commerce system developed in China at the end of 1999, to enable the on-line ticket reservation system to play an even greater role in sales.
- (6) **Cost control:** the Group will further strengthen control over revenues and expenditures, strictly control investment projects and cost expenditures and continue to improve financial results. In 2001, fluctuations in the price of aviation fuel domestically and internationally, the leasing of new aircraft and allocations for depreciation will place considerable pressure on cost expenditures. The Company will take the following measures:
1. *Controlling sales expenses:* the Group will formulate rational and effective sales agent incentive policies which comply with the laws and regulations and lower the ratio of sales expenses to the Group's revenues from its main business.
 2. *Reducing costs of aviation fuel:* as domestic aviation fuel prices fluctuate in tandem with international aviation fuel prices, the Group will conscientiously study the fluctuations in international aviation fuel prices and, to the extent permitted by government policies, enter into forward contracts and futures transactions in an effort to reduce the average price of aviation fuel.
 3. *Reducing the costs of aviation materials:* the Group will conscientiously formulate plans to reduce the volume of aviation material purchases and reduce aviation material inventory so as to make the Group's aviation material reserves more economical and enable the achievement of rational reserves that can ensure flight safety while reducing inventory and lowering the share of working capital tied up by such materials.

In respect of joint restructuring, the Group will take advantage of the favourable conditions presented by the restructuring of the Chinese civil aviation industry to rapidly expand the scale of the enterprise through joint restructuring and thus obtain an optimal combination of market resources, route resources, fleet resources and human resources. The Company will concentrate on selecting joint restructuring partners with strengths that make up for the Company's weaknesses, that allow it to expand its domestic market share, establish a network that better interconnects its domestic and international routes and take full advantage of the efficiencies resulting from the integration of resources.

I firmly believe that in the coming year, the Company will consolidate and continue to build upon its competitiveness advantages. In view of the intensely competitive environment, the Company will, with the support of all the shareholders and the dedication of the Company's management and all the staff, seek every opportunity to increase its market share and scope of service so as to ensure the continued stable growth of the Company's business operation and to achieve better results in return for the support of all the shareholders.

Finally, on behalf of the board of Directors, I would like to express my heartfelt gratitude to all the shareholders and all the staff of the Group for their support and trust.

Li Zhongming
Chairman

Shanghai, 9 April 2001