2001

Interim Report

中國東方航空股份有限公司
CHINA EASTERN AIRLINES CORPORATION LIMITED

The Board of Directors of China Eastern Airlines Corporation Limited (the "Company") would like to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2001, with comparative figures for 2000, as follows:

FINANCIAL STATEMENTS

A. Prepared in accordance with International Accounting Standards ("IAS")

Consolidated Profit and Loss Account
For the six months ended 30 June 2001

	Note	Six months ended 30 June (Unaudited) 2001 RMB'000	(Unaudited) 2000 RMB'000	(Unaudited) 2001 US$'000	2001 vs 2000 Increase/ (Decrease) %
Traffic revenues					
Passenger		**4,611,191**	4,160,833	**557,109**	10.82
Cargo and mail		**961,606**	989,384	**116,178**	(2.81)
Other operating revenues		**237,504**	192,993	**28,695**	23.06
Turnover	2	**5,810,301**	5,343,210	**701,982**	8.74
Operating expenses					
Wages, salaries and benefits		**431,709**	358,528	**52,158**	20.41
Take-off and landing charges		**825,632**	766,221	**99,750**	7.75
Aircraft fuel		**1,296,895**	951,257	**156,687**	36.33
Food and beverages		**277,585**	246,902	**33,537**	12.43
Aircraft depreciation and operating leases		**1,210,783**	1,044,394	**146,283**	15.93
Other depreciation and operating leases		**147,813**	134,409	**17,858**	9.97
Aircraft maintenance		**419,166**	405,436	**50,642**	3.39
Commissions		**256,834**	308,715	**31,030**	(16.81)
Office and administration		**344,758**	377,545	**41,652**	(8.68)
Other		**220,738**	230,216	**26,669**	(4.12)
Total operating expenses		**5,431,913**	4,823,623	**656,266**	12.61
Operating profit		**378,388**	519,587	**45,716**	(27.18)
Interest expense, net		**(423,901)**	(404,680)	**(51,214)**	4.75
Gain on disposal of aircraft		**–**	98,413	**–**	(100.00)
Other income		**133,246**	100,855	**16,098**	32.12
Profit before taxation		**87,733**	314,175	**10,600**	(72.08)
Taxation	3	**(34,304)**	(81,732)	**(4,145)**	(58.03)
Profit after taxation		**53,429**	232,443	**6,455**	(77.01)
Minority interests		**16,899**	(28,766)	**2,042**	158.75
Profit attributable to shareholders		**70,328**	203,677	**8,497**	(65.47)
Earnings per share	5	**RMB0.014**	RMB0.042	**US$0.0017**	(65.47)

Condensed Consolidated Balance Sheet

As at 30 June 2001

	Note	(Unaudited) 30 June 2001 RMB'000	(Audited) 31 December 2000 RMB'000	(Unaudited) 30 June 2001 US$'000
Goodwill	7	44,009	101,795	5,317
Fixed assets	8	20,906,964	20,802,294	2,525,911
Construction in progress		341,194	476,251	41,222
Other non-current assets		3,673,679	3,663,605	443,842
Current assets				
Flight equipment spare parts less allowance for obsolescence		411,978	376,003	49,774
Trade receivables	9	1,243,672	1,246,826	150,256
Other receivables and prepayments		784,067	887,691	94,728
Short-term deposits with related companies		150,149	188,302	18,141
Cash and bank balances		1,317,617	1,284,373	159,190
		3,907,483	3,983,195	472,089
Current liabilities				
Trade payables	10	42,919	76,978	5,185
Other payables and accruals		2,989,210	2,624,164	361,146
Current portion of obligations under finance leases		1,075,079	1,117,583	129,888
Current portion of long-term loans		353,533	422,788	42,713
Short-term bank loans		1,188,004	600,000	143,531
		5,648,745	4,841,513	682,463
Net current liabilities		(1,741,262)	(858,318)	(210,374)
Total assets less current liabilities		23,224,584	24,185,627	2,805,918
Capital and reserves		7,162,013	7,189,024	865,291
Minority interests		206,982	223,881	25,007
Obligations under finance leases		9,421,131	10,190,599	1,138,230
Long-term loans		3,966,384	4,381,407	479,206
Other long term liabilities		2,468,074	2,200,716	298,184
		23,224,584	24,185,627	2,805,918

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2001

(Unaudited)	Note	Share Capital RMB'000	Reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001		4,866,950	1,223,227	1,098,847	7,189,024
Transfer from reserves to retained profits	6	–	(182,336)	182,336	–
Dividends	4	–	–	(97,339)	(97,339)
Consolidated profit attributable to shareholders		–	–	70,328	70,328
At 30 June 2001		4,866,950	1,040,891	1,254,172	7,162,013
At 1 January 2000		4,866,950	1,201,143	945,402	7,013,495
Consolidated profit attributable to shareholders		–	–	203,677	203,677
At 30 June 2000		4,866,950	1,201,143	1,149,079	7,217,172

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2001

	Six months ended 30 June		
	(Unaudited) 2001 RMB'000	(Unaudited) 2000 RMB'000	(Unaudited) 2001 US$'000
Net cash inflow from operating activities	1,079,402	969,914	130,410
Net cash outflow from investing activities	(657,356)	(550,156)	(79,420)
Net cash outflow from financing activities	(401,831)	(628,310)	(48,548)
Net cash inflow/(outflow)	20,215	(208,552)	2,442
Cash and cash equivalents at 1 January	1,422,891	1,315,172	171,909
Exchange adjustment	(22,651)	4,624	(2,736)
Cash and cash equivalents at 30 June	1,420,455	1,111,244	171,615

Analysis of the balances of cash and cash equivalents:

	(Unaudited) 30 June 2001 RMB'000	(Audited) 31 December 2000 RMB'000
Short-term deposits and bank balances	**1,317,617**	1,284,373
Deposits with related companies	**150,149**	188,302
Less: short-term deposits with original maturity over three months	**(47,311)**	(49,784)
	1,420,455	1,422,891

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation and accounting policies

The unaudited consolidated interim financial statements comprise the consolidated financial statements of the Company and all its subsidiaries as at 30 June 2001 and of their results for the six months ended 30 June 2001. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

The unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") including, IAS34 "Interim Financial Reporting". This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory financial statements and interim financial statements in the People's Republic of China ("PRC"), which are prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). Differences between PRC Accounting Regulations and IAS on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2001 and on the unaudited consolidated net assets as at 30 June 2001 are set out in Section C.

In addition, IAS differs in certain material respects from generally accepted accounting principles in the United States of America ("U.S. GAAP"). Differences between IAS and U.S. GAAP on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2001 and on the unaudited consolidated net assets as at 30 June 2001 are set out in Section D.

The accounting policies used in the preparation of these unaudited consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2000.

2. Turnover

The Group is principally engaged in the provision of domestic, Hong Kong Special Administrative Region ("Hong Kong") and international passenger, cargo and mail airline services. Turnover comprises revenues from airline and airline related services net of sales tax and civil aviation infrastructure levies. The turnover and operating (loss)/profit by geographical segment are analysed as follows:

	For the six months ended 30 June (Unaudited)				
	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	Total RMB'000
2001					
Traffic revenues	**2,318,758**	**1,102,030**	**758,392**	**1,393,617**	**5,572,797**
Other operating revenues	**237,504**	**–**	**–**	**–**	**237,504**
Turnover	**2,556,262**	**1,102,030**	**758,392**	**1,393,617**	**5,810,301**
Operating (loss)/profit	**(32,607)**	**278,942**	**226,174**	**(94,121)**	**378,388**
2000					
Traffic revenues	2,067,664	1,012,186	730,796	1,339,571	5,150,217
Other operating revenues	192,993	–	–	–	192,993
Turnover	2,260,657	1,012,186	730,796	1,339,571	5,343,210
Operating profit/(loss)	165,064	272,896	183,062	(101,435)	519,587

* Include United States of America, Europe and other Asian countries

3. Taxation

(a) Taxation in the consolidated profit and loss account represents:

	(Unaudited) For the six months ended 30 June	
	2001 RMB'000	2000 RMB'000
Provision for PRC income tax	1	16,242
Deferred taxation	34,303	65,490
	34,304	81,732

A subsidiary of the Group was subject to a reduced income tax rate of 15% (2000: 15%). Except for this subsidiary, PRC income tax of other group companies is calculated at the applicable tax rate of 33% (2000: 33%) on the estimated assessable profits for the period determined in accordance with the relevant PRC income tax rules and regulations.

(b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30 June 2001 as there exists double taxation relief between PRC and the corresponding jurisdictions (including Hong Kong).

(c) Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets are recognised only to the extent that the deductible temporary differences are expected to be realised in the foreseeable future.

4. Dividends

The dividends recognised in the condensed consolidated statement of changes in equity for the six months ended 30 June 2001 represent the final dividend of RMB0.02 per share (2000: Nil) totalled RMB97,339,000 for the year ended 31 December 2000 proposed by the Board of Directors on 9 April 2001 and approved in the Annual General Meeting on 29 June 2001. The dividend payable is included in other payables and accruals in the condensed consolidated balance sheet as at 30 June 2001.

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).

5. Earnings per share

The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders of RMB70,328,000 (2000: RMB203,677,000) and 4,866,950,000 shares (2000: 4,866,950,000 shares) in issue during the period.

The Company has no dilutive potential ordinary shares.

6. Profit appropriation

No appropriations from retained profits were made to the statutory reserves during the six months ended 30 June 2001. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

During the period, certain new PRC accounting regulations became effective and the excess appropriations of reserves as a result of such changes are transferred from reserves to retained profits.

7. Goodwill

	(Unaudited) 2001 RMB'000
Cost	
At 1 January 2001	**113,105**
Negative goodwill arising from acquisition of a passenger carriage business (Note)	(55,245)
At 30 June 2001	57,860
Accumulated amortisation	
At 1 January 2001	11,310
Amortisation for the period	2,541
At 30 June 2001	13,851
Net book value at 30 June 2001	**44,009**
Net book value at 31 December 2000	101,795

Note:

On 9 June 2001, the Group acquired a passenger carriage business from China Civil Aviation Flight College, an affiliate of the Civil Aviation Administration of China, at a total consideration of RMB270 million. The nominal value of the consideration is payable in cash by nine equal annual instalments of RMB30 million commencing June 2001. Taking into account the present value of the consideration, a negative goodwill of RMB55,245,000 was resulted from the acquisition, which is amortised on a straight-line basis over a period of 16 years which represents the weighted average useful life of the identifiable acquired depreciable assets.

8. Fixed assets

(Unaudited)	2001 Aircraft and flight equipment RMB'000	Land use rights RMB'000	Other fixed assets and equipment RMB'000	Total RMB'000
Valuation				
At 1 January 2001	22,705,765	892,060	3,081,651	26,679,476
Transfer from construction in progress	–	380,819	109,599	490,418
Additions	155,285	280	49,154	204,719
Acquisition of a passenger carriage business	152,993	56,024	51,202	260,219
Disposals	(4,415)	–	(21,794)	(26,209)
At 30 June 2001	23,009,628	1,329,183	3,269,812	27,608,623
Accumulated depreciation				
At 1 January 2001	5,163,105	51,448	662,629	5,877,182
Charge for the period	709,923	13,880	114,513	838,316
Disposals	(1,272)	–	(12,567)	(13,839)
At 30 June 2001	5,871,756	65,328	764,575	6,701,659
Net book value at 30 June 2001	**17,137,872**	**1,263,855**	**2,505,237**	**20,906,964**
Net book value at 31 December 2000	17,542,660	840,612	2,419,022	20,802,294

9. Trade receivables

The credit terms given to trade customers are determined on an individual basis, with the credit period ranging from two weeks to three months.

As at 30 June 2001, the aging analysis of the trade receivables is as follows:

	(Unaudited) 30 June 2001 RMB'000	(Audited) 31 December 2000 RMB'000
Current	719,735	588,953
30 to 60 days	305,192	320,395
60 to 90 days	130,463	253,369
Over 90 days	88,282	84,109
	1,243,672	1,246,826

10. Trade payables

As at 30 June 2001 and 31 December 2000, all trade payables were current balances aged under 30 days.

11. Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2001, the Group had capital commitments as follows:

	(Unaudited) 30 June 2001 RMB'000	(Audited) 31 December 2000 RMB'000
Authorised and contracted for:		
– Aircraft and related equipment	9,882,858	10,092,671
– Other	141,810	423,857
	10,024,668	10,516,528
Authorised but not contracted for:		
– Aircraft and related equipment	–	–
– Other	904,600	1,057,620
	904,600	1,057,620
	10,929,268	11,574,148

The above commitments include primarily amounts for acquisition of three Airbus A-320 and five A-340 aircraft for delivery between 2001 and 2004.

(b) Operating lease commitments

As at 30 June 2001, the Group had commitments under operating leases to make future minimum rentals as follows:

	(Unaudited) 30 June 2001		(Audited) 31 December 2000	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Within one year	934,050	49,716	916,043	65,845
In the second year	1,226,047	11,182	1,039,057	10,654
In the third to fifth year inclusive	3,654,138	23,937	3,717,879	22,571
After the fifth year	5,367,557	16,640	5,976,513	19,050
	11,181,792	101,475	11,649,492	118,120

(c) Contingent liabilities

As at 30 June 2001, the Group had provided a guarantee to a bank amounting to RMB150,000,000 in respect of bank facilities granted to Nanjing Lu Kou International Airport Company ("Lu Kou International Airport"), a third party. In addition, the Group had provided a guarantee to Citic Securities Co. Ltd. amounting to RMB160,000,000 in respect of a 3-year corporate debenture issued by Jiangsu Aviation Property Group Co. Ltd., the holding company of Lu Kou International Airport.

12. Translation for convenience

The unaudited consolidated profit and loss account and net assets have been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into United States dollars ("US$") solely for convenience have been made at the rate of US$1.00 to RMB8.277 being the average of the buying and selling rates as quoted by People's Bank of China at the close of business on 30 June 2001. No representation is made that RMB amounts could have been or could be converted into US$ at that rate or at any other rate on 30 June 2001 or any other date.

B. Prepared in accordance with the PRC Accounting Regulations

Consolidated Balance Sheet

	(Unaudited) 30 June 2001 RMB'000	(Audited) 31 December 2000 RMB'000
Assets		
Total Current Assets	**7,011,898**	7,315,085
Net Long-term Investments	**580,590**	634,703
Total Fixed Assets	**17,568,735**	17,933,480
Total Intangible Assets & Other Assets	**1,475,818**	1,103,030
Total Assets	**26,637,041**	26,986,298
Liabilities & Shareholders' Equity		
Total Current Liabilities	**6,765,397**	6,167,744
Total Long-term Liabilities	**13,594,272**	13,867,448
Deferred Tax Credits	**1,697**	2,002
Total Liabilities	**20,361,366**	20,037,194
Minority Interests	**285,492**	342,556
Total Shareholders' Equity	**5,990,183**	6,606,548
Total Liabilities & Shareholders' Equity	**26,637,041**	26,986,298

Consolidated Profit and Loss Account

Items		(Unaudited) For the six months ended 30 June 2001 RMB'000	2000 RMB'000
I.	Revenue from Main Operations:	6,134,341	5,598,045
	Less: Revenue from Civil Air Infrastructure Construction Fund	204,263	171,966
	Revenue from Main Operations, net	5,930,078	5,426,079
	Less: Operating Cost	4,988,254	4,301,069
	Business Taxes and Surtaxes	146,398	136,721
II.	Profit from Main Operations	795,426	988,289
	Add: Income from Other Operations	238,390	207,351
	Less: Operating Expenses	651,966	624,371
	General & Administrative Expenses	275,092	216,675
	Financial Expenses	366,325	398,171
III.	Profit from Operations	(259,567)	(43,577)
	Add: Income from Investments	31,298	27,756
	Subsidy Income	–	210
	Non-operating Income	6,323	142,383
	Less: Non-operating Expenses	29,928	8,910
IV.	Total Profit	(251,874)	117,862
	Less: Income Tax	53	16,306
	Minority Interest (for consolidated statements)	(25,412)	30,652
V.	Net Profit	(226,515)	70,904

Notes (Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements):

1. Accounting Policies Applied

The Company previously followed <Accounting Standards for Stock Companies>. Pursuant to the requirements of Ministry of Finance according to a notice numbered Cai-kuai (2000) 25, the Company started to follow <Accounting Standards for Business Enterprises> from 1 January, 2001.

2. Accounting Period

The Company adopts the Gregorian calendar year as its accounting period, i.e., from 1 January to 31 December.

3. Recording Currency

The recording currency of the Company is Renminbi (“RMB”).

4. Principle and Basis of Accounting

The Company adopts the accrual basis, double-entry system and historical cost as basis of accounting.

5. Translation of Foreign Currencies

The Company maintains its books and records in RMB. Transactions in foreign currencies are translated into RMB at the applicable medium rate of exchange prevailing on the first day of the month during which the transactions occurred. Monetary assets and liabilities in foreign currencies are translated into RMB at the medium rate of exchange prevailing on the last day of each month. Exchange differences arising are included in the <Financial Expenses- Exchange Gains and Losses> of the current period.

6. Definition of Cash Equivalents

Cash equivalents refer to those short-term assets having the features of high liquidity, low risk of fluctuations in value and easy convertibility into a known amount of cash.

7. Accounting of Provision for Bad Debts

(1) Determination of bad debts

a. The accounts receivable that are uncollectible even after the liquidation of the debtor’s bankrupt estate or legacy after the bankruptcy or death of the debtor.

b. The accounts receivable with an aging of over 3 years that cannot be collected because of the debtor’s default in making repayment.

(2) Accounting treatment for bad debts

When the accounts receivable meet the criteria set forth in paragraph (1) above, they can be written off after proper approval procedures.

(3) Determination standards of bad debts, provision method and percentages of provision for bad debts

The Company adopts allowance method for bad debts. At the middle and end of the period, the Company makes provision for Accounts Receivable as well as Other Receivables using aging method while considering the actual situation of the debtor. The percentages of provision for accounts receivable with different aging are listed as follows:

Aging	*Provisioning Percentage*
Within 1 Year	3‰
In the Second Year	5%
In the Third Year	10%
In the Fourth Year	15%
In the Fifth Year	20%
After 5 Years	40%

8. Accounting of Inventory

(1) Classification of Inventory

The Company's inventory comprises mainly aircraft consumables, high-price rotables, common appliances, supplies on aircraft and low-price consumables.

(2) Valuation of Inventory

The inventory is recorded at planned price and adjusted to its actual cost through the account of <Material Cost Variance> at the end of each month. The amortization of high-price rotables is made evenly over 5 years starting from the next month of acquisition. For those high-price rotables that can still be used after necessary repair upon completion of amortization, they will be recorded at 40% of the market prices and be re-amortized over the next 5 years.

(3) Allowance for Obsolescence of Inventory

The Company provides allowance against aircraft consumables at the middle and end of each period according to the average useful life of corresponding type of airplane while taking into consideration of the average discount rate in previous disposals of aircraft consumables.

9. Accounting of Short-term Investment

(1) The short-term investment is recorded at the total price paid on acquisition, including incidental expenses such as taxes and handling charges, after deduction of cash dividends that have been declared but unpaid at the time of acquisition or unpaid bond interests that have become due. Cash dividends or interests gained during the period of holding the short-term investments, except those recorded as receivables on acquisition, should be viewed as the return of investment cost and be offset against the carrying amount of investments upon receipt. On disposal of a short-term investment, the difference between the carrying amount and the sale proceeds should be recognized as an investment gain of the current period.

(2) Provision for loss on short-term investment

At the middle and end of the period, the Company should adjust the carrying amount of short-term investment to the lower of cost and market value and make provision equivalent to the excess of carrying amount over market value on an individual item basis.

10. Long-term Investment

(1) Long-term equity investment

Long-term equity investment consists of stock investment and other equity investment. The long-term equity investment is recognized initially at the actual acquisition cost paid. The equity method is applied wherever the Company holds 20% or more voting capital of the invested entity, or holds less than 20% of the voting capital but has significant influence over the invested entity. The cost method is applied wherever the Company holds less than 20% of the voting capital of the invested entity, or holds 20% or more voting capital but the Company does not have significant influence over it.

(2) Long-term debt investment
Long-term debt investment includes bond investment and leasing. The initial cost of the long-term debt investment is the actual acquisition cost and the investment gain or loss is recognized on the accrual basis.

(3) Equity investment difference
The difference between investment cost mentioned in (1) above and the investor's share of the net assets of the invested entity is generally amortized over a period of 10 years.

(4) Provision for loss on long-term investment
At the middle or end of the period, if the recoverable amount of a long-term investment is lower than its carrying amount as a result of deterioration in the operating conditions of the invested enterprise, the Company should record the shortfall between the recoverable amount and the carrying amount as provision for loss on long-term investment.

11. Accounting of Fixed Assets

(1) The pricing of fixed assets and its depreciation method
Fixed assets refer to those assets utilized in production with a useful life of more than 1 year or those assets not related with production but have a value of more than RMB 2,000 per unit and can be held physically to directly realize its benefits during the course of use. Fixed assets are recorded at actual cost on acquisition. After deducting 3% of the cost as residual value, depreciation is provided on a straight-line basis according to the useful lives as follows:

Aircraft	10~15 years
Engines	10~15 years
Buildings and Premise	15~35 years
Motor Vehicles and Electronic Device	5~6 years
Other Equipment	5~20 years

(2) Provision for loss on fixed assets
The recoverable amount of some fixed assets may be lower than the carrying value due to technical obsolescence, damage or idleness. At the middle or end of the period, the Company will make provision for loss on fixed assets at an amount equivalent to the difference between recoverable amount and the carrying value.

12. Accounting of Construction-in-Progress

(1) All equipment that need installation before being put into use and projects to be completed by the Company or subcontracted out are recorded in the account of <Construction-in-Progress>. Construction-in-Progress is recorded at actual cost, including cost of equipment, installation expenses and capitalized interests during the course of construction for the purpose of financing the project.

Upon completion and readiness for use, the cost of construction-in-progress is to be transferred to the account of <Fixed Assets>.

(2) Provision for loss on construction-in-progress
At the middle or end of the period, the Company will make provision for construction-in-progress if there is enough evidence to support that the construction-in-progress has depreciated. The amount of the provision will be equal to the depreciation.

13. Accounting of Intangible Assets

(1) Intangible assets are recorded at the actual acquisition cost and are amortized equally over its expected useful period under straight-line method from the month of acquisition.

(2) At the middle or end of the period, the Company will make provision for intangible assets if the recoverable amount of an intangible asset is lower than its carrying value because of technical obsolescence or drastic drop of market price. The amount of the provision is the difference between recoverable amount and carrying value.

14. Amortization of Organization Expenses and Long-term Deferred Expenses

(1) Organization expenses are completely charged to operating profit of the month during which the Company starts formal operation.

(2) Long-term deferred expenses are amortized over the estimated beneficial period under straight-line method.

15. Overhaul Expenses of Aircraft and Engines

Pursuant to the related regulations of the Finance Dept. of Civil Aviation Administration of China ("CAAC"), the overhaul expenses of aircraft and engines should be accrued to a amount equal to 2%~4% of the original values in consideration of the overhaul cycle and expected overhaul expenses of various types of aircraft.

16. Income Recognition

The Company's income from rendering carriage service of passengers, cargo and mail is recognized upon delivery of the service. And commission income is recognized upon billing by other airline companies. Air tickets sold in advance but not used are listed as current liabilities and entered into the accounts of <Domestic Sales in Advance of Carriage> and <International Sales in Advance of Carriage>. The tickets executed by the Company but sold by other airlines and the tickets sold by the Company but executed by other airlines are to be cleared via Accounting Center of China Aviation ("ACCA"). <Transportation Income> is recorded with the uplifted coupons as evidence while <Commission Income> is recorded with the billing forms from other airlines as evidence.

Ground service income is recognized when rendering services.

17. Income Tax

The accounting of income tax is based on the tax payable method.

18. Basis of Consolidated Statements

(1) Consolidation scope

The Company prepares its financial statements in compliance with the <Provisional Regulations for the Consolidation of Financial Statements> issued by the Ministry of Finance with the Ref. No. CKZ (1995) 11. Wherever the equity investment made by the Company to another enterprise is over 50% of the invested enterprise's capital, or less than 50% but the Company has substantial control over the invested enterprise, the invested enterprise should be included in the scope of consolidation. However, for those invested entities that have not formally commenced operations, or although over 50% of the share capital are held by the Company its total assets, operating revenue and net profit are all below 10% of those of the Company's are exempt from consolidation.

(2) Consolidation method

The consolidated financial statements are prepared on the basis of the financial statements of the Company and its subsidiaries within the consolidation scope and other relevant information. The equity investment and the corresponding portion of the owner's equity of the invested companies, the claims and liabilities, as well as the internal sales between or among them are to be eliminated when preparing the consolidated statements.

19. Change of Accounting Policy and its Effect

According to the relevant regulations, the Company started to follow <Accounting Standards for Business Enterprises> from 1 January 2001 while dropping the previous <Accounting Standards for Stock Companies>. The changes to the accounting policies of the Company are as follows:

(1) The Company did not make allowance for loss on fixed assets previously. Now the Company makes allowance for loss on fixed assets according to the lower of carrying amount and recoverable amount.

(2) The Company did not make allowance for loss on construction in progress previously. Now the Company makes allowance for loss on construction in progress according to the lower of carrying amount and recoverable amount. There is no need for the Company to make allowance for construction in progress at the middle of this period for there is no evidence to prove that the construction in progress of the Company has depreciated by 30 June 2001.

(3) The Company did not make allowance for loss on intangible assets previously. Now the Company makes allowance for loss on intangible assets according to the lower of carrying amount and recoverable amount. There is no need for the Company to make allowance for loss on intangible assets at the middle of this period for there is no evidence to prove that the present value of the proceeds to be realized by intangible assets in the future is lower than the carrying amount by 30 June 2001.

(4) The organization expenses were originally amortized over 5 years from the year the Company started formal operation. Now the organization expenses are completely charged to the operating result of the month during which the Company starts formal operation.

Because the Company has no significant allowance for losses on assets there is no need to make adjustments to the financial statements of 2000 and before. The financial statements of 2001 have been prepared with new accounting policies and the effect on the operating result of the first half of 2001 is an increase of deficit totaling RMB8,530,000, including RMB3,570,000 of depreciation of fixed assets and RMB4,960,000 of amortization of organization expenses.

20. During the six months ended 30 June 2001, there is no change to the subsidiaries of the Group which are subjects of the consolidated financial statements.

C. Significant Differences between IAS and PRC Accounting Regulations

Differences between IAS and PRC Accounting Regulations which have significant effects on the unaudited consolidated (loss)/profit attributable to shareholders and the unaudited consolidated net assets are summarised below:

Consolidated (loss)/profit attributable to shareholders

	For the six months ended 30 June	
	2001 RMB'000	2000 RMB'000
As stated under PRC Accounting Regulations	(226,515)	70,904
Impact of IAS and other adjustments:		
Allowance for obsolescence of flight equipment spare parts	13,814	(9,747)
Difference in depreciation charges of flight equipment due to different useful lives	81,019	32,444
Difference in depreciation charges and gain on disposal of aircraft due to different useful lives	295,786	225,090
Provision for overhaul expenses	(30,530)	(35,795)
Reversal of additional charges of flight equipment spare parts arising from revaluation surplus of such assets	3,597	5,396
Capitalisation of borrowing costs	38,717	–
Accrual of net interest income on subleases	(472)	(2,881)
Provision for post-retirement benefits	(55,443)	(53,270)
Amortisation of goodwill	(2,541)	(2,828)
Interest accrued on instalments payable for acquisition of a passenger carriage business	(956)	–
Provision for sale of staff quarters	–	(33,000)
Other	(17,652)	72,854
Tax adjustments	(28,496)	(65,490)
As stated under IAS	70,328	203,677

Consolidated net assets

	30 June 2001 RMB'000	31 December 2000 RMB'000
As stated under PRC Accounting Regulations	**5,990,183**	6,606,548
Impact of IAS and other adjustments:		
Difference in allowance provided for obsolescence of flight equipment spare parts	**(5,908)**	(19,722)
Difference in accumulated depreciation charges of flight equipment due to different useful lives	**510,109**	429,090
Difference in accumulated depreciation charges and gain/loss on disposal of aircraft due to different useful lives	**1,866,985**	1,571,199
Provision for overhaul expenses	**(557,956)**	(527,426)
Reversal of additional charges of flight equipment spare parts arising from revaluation surplus of such assets	**(67,407)**	(71,004)
Capitalisation of borrowing costs	**38,717**	–
Accrual of net interest income on subleases	**–**	472
Provision for post-retirement benefits	**(593,528)**	(538,085)
Disposition charge of flight equipment of aircraft already disposed of	**(38,750)**	(38,750)
Provision for staff quarter allowance	**(80,179)**	(80,179)
Goodwill	**44,009**	101,795
Time value on instalments payable for acquisition of a passenger carriage business	**54,289**	–
Difference in accounting for sale of staff quarters	**38,221**	(352,400)
Timing differences in the recognition of dividends	**–**	97,339
Other	**137,193**	155,616
Tax adjustments	**(173,965)**	(145,469)
As stated under IAS	**7,162,013**	7,189,024

D. Significant Differences between IAS and U.S. GAAP

Differences between IAS and U.S. GAAP which have a significant effect on the unaudited consolidated profit attributable to shareholders and the consolidated net assets are summarised below:

Consolidated profit attributable to shareholders

	For the six months ended 30 June		
	2001 RMB'000	2000 RMB'000	2001 US$'000
As stated under IAS	**70,328**	203,677	**8,497**
U.S. GAAP adjustments:			
Reversal of additional depreciation charges arising from the revaluation surplus of fixed assets	**42,938**	77,376	**5,188**
Reversal of amortisation charge on land use rights	**4,210**	4,210	**508**
Reversal of amortisation charge on goodwill	**2,828**	2,828	**341**
Gain on disposal of aircraft and related assets and accelerated depreciation	**–**	34,183	**–**
Difference in accounting for change in accounting policy for aircraft overhaul expenses in the previous year	**–**	652,981	**–**
Sales and leaseback of aircraft	**13,076**	(66,111)	**1,580**
Post-retirement benefits	**21,233**	21,233	**2,565**
Deferred tax effect on U.S. GAAP adjustments	**(27,814)**	(239,811)	**(3,360)**
As stated under U.S. GAAP	**126,799**	690,566	**15,319**
Earnings per share under U.S. GAAP	**RMB0.026**	RMB0.142	**US$0.003**
Earnings per American Depository Share ("ADS") under U.S. GAAP	**RMB2.61**	RMB14.19	**US$0.315**

Consolidated net assets

	30 June 2001 RMB'000	31 December 2000 RMB'000	30 June 2001 US$'000
As stated under IAS	7,162,013	7,189,024	865,291
U.S. GAAP adjustments:			
Reversal of revaluation surplus of fixed assets	(977,240)	(977,240)	(118,067)
Reversal of land use rights at valuation	(420,999)	(420,999)	(50,863)
Goodwill written off to equity	(113,105)	(113,105)	(13,665)
Reversal of difference in accumulated depreciation charges, accelerated depreciation and gain/loss on disposal arising from revaluation surplus of fixed assets	594,526	551,588	71,829
Sales and leaseback of aircraft	(53,891)	(66,967)	(6,511)
Reversal of accumulated amortisation charge on land use rights	42,100	37,890	5,086
Reversal of accumulated amortisation charge on goodwill	14,138	11,310	1,708
Post-retirement benefits	206,634	185,401	24,965
Deferred tax effect on U.S. GAAP adjustments	233,587	261,401	28,221
As stated under U.S. GAAP	6,687,763	6,658,303	807,994

SELECTED AIRLINE OPERATING DATA*

	For the six months ended 30 June 2001	2000
Capacity		
ASK (available seat-kilometers) (millions)	12,373.72	11,142.85
ATK (available tonne-kilometers) (millions)	2,046.11	1,738.95
ACTK (available cargo tonne-kilometers) (millions)	932.47	736.10
Traffic		
Total tonne-kilometers (millions)	1,126.11	995.28
Passenger tonne-kilometers (millions)	666.90	596.01
Cargo tonne-kilometers (millions)	459.21	399.27
Passenger-kilometers (millions)	7,449.29	6,665.11
Hours flown (thousands)	105.10	86.03
Number of passengers carried (thousands)	4,826.39	4,371.35
Weight of cargo carried (kg) (millions)	139.13	136.72

	For the six months ended 30 June	
	2001	2000
Load Factor (%)		
Overall load factor	**55.04**	57.23
Passenger load factor	**60.20**	59.82
Break-even load factor (based on ATK)	**53.65**	53.60
Yield and Costs		
Passenger yield (passenger revenues/passenger-kilometers)	**0.62**	0.62
Cargo yield (cargo revenues/cargo tonne-kilometers)	**2.09**	2.48
Average yield (passenger and cargo revenues/tonne-kilometers)	**4.95**	5.17
Unit cost (operating expenses/ASK)	**0.44**	0.43
Unit cost (operating expenses/ATK)	**2.65**	2.77

* In accordance with Order No. 88 of the Measures for the Administration of China's Civil Aviation Statistics of the Civil Aviation Administration of China ("CAAC"), new statistical standards have been implemented with effect from 1 January 2001. The Group has adjusted the operating data for the same period last year according to the new standards. The main differences between the two sets of standards are set forth below:

1. The standard for conversion of passenger weight has been changed from the original 75 kg per person to 90 kg per person (including baggage);

2. Baggage weight is no longer included in the calculations;

3. Number of scheduled flights has been changed to number of takeoffs.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations and Financial Results

During the first half of 2001, the growth of the global economy, including the European and the U.S. economies, further slowed down. The Japanese economy remained sluggish, while the economy of the Southeast Asian region was also adversely affected by the slowdown of the global economy. The PRC economy, however, made progress in its development as the PRC government implemented a series of measures to stimulate domestic demand, resulting in a 7.9% increase in the PRC Gross Domestic Product for the first half of the year. Competition in the domestic and foreign air traffic markets intensified as a result of the changing air traffic demand due to the global economic slowdown.

The Group actively took a series of measures in response to the global economic downturn and the changing conditions of the aviation market demands. These measures include:

(i) adopting various sales and marketing measures to actively pursue market opportunities;

(ii) making prompt adjustments to the Group's allocation of capacity, flight schedules and air route structure according to market demand;

(iii) in relation to international routes, with a view to maintaining a strong position in the Paris routes, maintaining round trip flights from Shanghai to Paris at a frequency of 6 times per week and achieving daily flights on the Beijing-Paris route through a code sharing arrangement with Air France;

(iv) increasing the frequency of Yantai-Seoul flights and launching additional scheduled or charter flights on the routes from Shanghai to Cheju, Taegu and Kwangju as well as from Nanjing to Seoul and Cheju, in order to capture the growth opportunities in the South Korean tourism market, and thus strengthening the regional position of the Group with respect to the Korean routes;

(v) making a number of adjustments on domestic routes in order to further capture high growth opportunities, including increasing the flight frequency, adjusting the types of aircraft for flights on the Shanghai Hongqiao Airport to Beijing route, launching the special brand of “China Eastern Express”, increasing the Group’s market share of the “China Eastern Express” routes, arranging more than 1,000 scheduled flights a week to and from Shanghai to concentrate the Group’s capacity on relatively profitable routes, making reasonable allocation of scheduled flights to and from Shanghai’s Hongqiao Airport and Pudong Airport to achieve a 70:30 spread between Hongqiao and Pudong of scheduled flights into and out of Shanghai;

(vi) strengthening the Group’s leading position in the Eastern China regional market through its acquisition of Air Great Wall and the establishment of the Group’s Ningbo branch in June 2001;

(vii) enhancing its exchanges and cooperation with domestic and foreign airlines and continuing to engage in joint operation of domestic routes with domestic airlines so as to stabilize revenues;

(viii) strengthening its cooperation with American Airlines by allowing American Airlines to refit the business class section of the Group’s MD11 aircraft free of charge and successfully implementing the real-time exchange of passenger information between the two parties and their free sales of scheduled flights;

(ix) formally joining the Asia Miles program on 27 April 2001, thus expanding its frequent flyer development program;

(x) launching the “Great Wall-China Eastern Airline Co-Branded Card” with the Shanghai branch of Bank of China; launching the “Air Ticket & Hotel” cooperation scheme with the domestic hotel industry;

(xi) further rationalizing cargo routes by terminating the wet lease of its Boeing 747 cargo aircraft in May 2001, adjusting the structure of its cargo routes to the U.S. and establishing a new source of revenue by opening a new cargo route from Shanghai to Nagoya via Xiamen;

(xii) from 29 to 30 May 2001, successfully flying the polar route, which made the Group the first airline in China’s civil aviation history to do so, thereby gaining valuable experience for possible future launches by the Group of time-saving routes to central and eastern U.S.

As of 30 June 2001, the Group operated a total of 188 routes, of which 149 were domestic routes (including 13 routes to Hong Kong) and 39 were international routes (including 9 international cargo routes). The Group operated over 2,200 scheduled flights per week, serving 94 foreign and domestic cities. At present, the Group has a total of 75 aircraft, including 61 passenger jet aircraft with a capacity of over 100 seats and 3 jet freighters.

During the first half of 2001, traffic volume of the Group totalled 1.126 billion tonne-kilometers, an increase of 13.15% over the same period last year, while total revenues amounted to RMB5.573 billion, an increase of 8.21% over the same period last year. The average aircraft daily utilization was 9.1 hours, an increase of 1.1 hours over the same period last year. The total passenger traffic volume was 7.449 billion passenger-kilometers, an increase of 11.77% over the same period last year, while total passenger revenues amounted to RMB4.611 billion, an increase of 10.82% over the same period last year.

Domestic passenger traffic volume reached 3.413 billion passenger-kilometers, an increase of 12.88% over the same period last year. Domestic passenger revenues were RMB2.206 billion, an increase of 13.90% over the same period last year, accounting for 47.80% of the Group's total passenger revenues.

Passenger traffic volume on Hong Kong routes amounted to 996 million passenger-kilometers, an increase of 7.97% over the same period last year. Hong Kong passenger revenues were RMB0.991 billion, an increase of 9.35% over the same period last year, accounting for 21.50% of the Group's total passenger revenues.

International passenger traffic volume reached 3.040 billion passenger-kilometers, an increase of 11.81% over the same period last year. International passenger revenues were RMB1.414 billion, an increase of 7.32% over the same period last year, accounting for 30.7% of the Group's passenger revenues.

The Group's cargo traffic volume was 459 million tonne-kilometers, an increase of 15.01% over the same period last year, while cargo revenues were RMB0.962 billion, a decrease of 2.81% over the same period last year.

The Group's total operating costs reached RMB5.432 billion, an increase of 12.61% over the same period last year. The increase in operating costs was primarily due to the continuing high level of aviation fuel prices in the PRC and abroad, leading to an increase in aviation fuel costs by RMB346 million compared to the same period last year. In addition, the addition of new aircraft and related equipment, such as engines, to upgrade the Group's fleet led to an increase in operating lease payments and engine depreciation expenses.

During the first half of 2001, the Group's foreign currency exchange gain was approximately RMB85.64 million, attributable primarily to the depreciation of the Japanese yen.

As a result of the above, the Group's net profit under IAS was approximately RMB70.33 million during the six months ended 30 June 2001 and the earnings per share amounted to RMB0.014.

Liquidity and Capital Resources

The Group finances its working capital requirements through a combination of funds generated from operations and short-term bank loans. As at 30 June 2001, the Group had cash and cash equivalents of RMB1,420 million, substantially all of which were denominated in Renminbi. Net cash provided by operating activities in the first half of 2001 was RMB1,079 million, representing an increase of 11% compared to the first half of 2000. The Group's primary cash requirements in the first half of 2001 continued to be for additions of and upgrades on aircraft and flight equipment and payments on related indebtedness.

Net cash used in investing activities in the first half of 2001 was RMB657 million.

Net cash used in financing activities was RMB402 million, primarily for repayments of long-term and short-term loans as well as principal repayments on finance lease obligations.

The Group generally operates with a working capital deficit. As at 30 June 2001, the Group's current liabilities exceeded the Group's current assets by RMB1,741 million, compared to RMB858 million at the end of 2000, and long-term debt to equity ratio was 2.24, compared to 2.36 at the end of 2000. The Group has generally been able to arrange short-term bank loans with domestic and foreign banks in China as necessary to meet the Group's working capital requirements. The Group believes that it can obtain these short-term bank loans when required because of the Group's continuing relationships with various lenders.

Charges on Assets and Contingent Liabilities

The Group generally pledges its assets to secure its obligations under finance leases and bank loans for acquisition of aircraft. As at 30 June 2001, the total carrying value of assets pledged was RMB2,459 million, down from RMB3,487 million at the end of 2000.

For details concerning the contingent liabilities of the Group as at 30 June 2001, please refer to note 11(c) to the consolidated financial statements of the Group prepared in accordance with IAS.

Employees

As at 30 June 2001, the Group had approximately 13,500 employees. The increase reflects primarily the addition of employees of Air Great Wall after the acquisition in June 2001.

Except for the information disclosed herein, the information in relation to those matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2000 annual report of the Company.

Outlook for the Second Half of 2001

The Group would like to caution readers that this interim report for the six months ended 30 June 2001 contains certain forward-looking statements, including, without limitation, the statements regarding the Group's future strategies and work plan for the second half of 2001 and the Asian and the PRC economies and aviation markets. These forward-looking statements are subject to significant uncertainties and risks, and actual events or results may differ materially from the information contained in such forward-looking statements as a result of a number of factors such as changes in regulatory policies of the CAAC (including any policy changes in price systems), the effects of competition on the demand and price of the Group's services, changes in the global economic conditions (economic development and conditions of the countries served by the flights of the Group), the political and economic conditions of China and its admission to the World Trade Organization, the cost and availability of aviation fuel, any significant changes in the exchange rates between Renminbi or Hong Kong dollar and U.S. dollar or Japanese yen and the Group's ability to obtain adequate financing on commercially acceptable terms.

The Group believes that during the second half of 2001, global economic growth will further slow down, and the U.S. and Japanese economies will continue to experience difficulties. This will have certain adverse impact on the growth of China's economy. However, the Group believes that, since the domestic economy of China is likely to maintain relatively steady growth, consumer demand in the tourism industry and demand for domestic air traffic are expected to continue to grow. In addition, the Company believes that China is close to joining the World Trade Organization which may also bring new opportunities for the growth of consumer demand.

The CAAC has stated that it will continue to strengthen its control over certain macro aspects of the Chinese aviation market. In particular, it will:–

(i) control the growth of capacity;

(ii) actively develop domestic passenger aviation market and develop new tourist routes to attract air travellers;

(iii) actively and orderly develop feeder routes to foster the development of new markets;

(iv) strengthen price control by continuing to implement its policies on ticket price regulation, ensuring that the joint operation of routes is carried out properly, continuing the multilevel ticket pricing experiment on 15 routes and studying ways to reform the administration of air cargo prices;

(v) further regulate the sales agent market and air traffic market; and

(vi) steadily introduce strategic alliances and restructurings of air carriers so as to enhance the competitiveness of airlines.

The Group believes that its operating environment will improve as a consequence of the implementation of CAAC's stated policies and the Chinese government's adoption of measures to increase domestic demand. Furthermore, the approach of such international activities and holidays as the APEC meeting, China's national day and the New Year holidays, and Beijing's successful bid to host the Olympics in 2008, are expected to drive the growth of air traffic demand and increase the Group's total traffic volume, resulting in an increase in the Group's operating revenues.

In light of the current market environment and the Group's present conditions, the Group plans to take the following steps in the second half of the year:

1. Rationalize the allocation of capacity and optimize the distribution of routes

During the second half of the year, the Group plans to lease three Airbus A320 aircraft under financial lease and four Airbus A319 under operating lease. The Group intends to rationalize the allocation of its capacity and further optimize the distribution of its routes to better meet the market demand and capture growth opportunities. The Group plans to capitalize on the establishment of its Ningbo branch and new opportunities of its possible alliance with China Yunnan Airlines and China Northwest Airlines to adjust the allocation of capacity on the jointly operated routes based on market demand.

2. **Strengthen exchanges and cooperation with other airlines and improve the route network**
Through increasingly close business cooperation with China Yunnan Airlines and China Northwest Airlines, the Group plans to extend its service coverage in southwest and northwest China. Through cooperation with Cathay Pacific Airways, the Group will seek to establish an advantageous position on routes between Shanghai and Taiwan. The Group plans to take full advantage of its code sharing arrangement with Air France to develop the European market. Through cooperation with Asiana Airlines and Korean Air, the Group will seek to build an advantageous position in the Korean routes. In addition, the Group will seek to increase the number of code-sharing routes inside the U.S. with American Airlines.

3. **Develop the frequent flyer incentive program and increase sales channels**
The Group formally joined the Asia Miles program during the first half of 2001, with an objective of strengthening business cooperation with other member airlines. In September 2001, the Group will cooperate with the Shangri-La Hotel Group to enhance the impact of the Group's Golden Swallow Club. Starting from October, members will have access to functions such as online applications, enquiries, publication of information and so forth. This is expected to enhance the Group's brand name and attract a higher number of loyal travellers.

4. **Improve the sales network for air cargo transportation and further expand in the air cargo market**
In response to demand in the air cargo market, the Group will seek to improve its sales network and strengthen Shanghai's position as a cargo hub in Eastern China. The Group plans to collect international cargo from other cities in China to increase the volume of cargo carried by flights departing from Shanghai. It plans to adjust its U.S. cargo routes by roaming different cities on the East Coast and West Coast, respectively, rather than flying direct, so as to increase flight frequency and the volume of return cargo. The Group expects to cooperate with Cathay Pacific Airways to increase the number of nighttime express cargo flights and thus increase its aircraft daily utilization. The Group plans to launch a route from Taipei to Shanghai via Hong Kong so as to obtain cargo consignments from Taipei to Shanghai.

5. **Strengthen centralized control of finances and take strong measures to reduce costs and expenses**
The Group plans to integrate its financial auditing activities and improve its centralized control system, which is expected to improve the Group's basic management of aviation materials by establishing a computerized management network to implement and co-ordinate its aviation material purchase and storage plans more accurately and effectively; screening the inventory of aviation materials; accelerating the management of overstock aviation materials; further reducing inventory and the funds tied up in such inventory; strengthening the Group's centralized management of finances and risk management; moving from the traditional financing method of borrowing RMB at fixed interest rates to invite bids for domestic loans; reducing the cost of money by using RMB to buy and sell foreign exchange; implementing risk management of foreign exchange revenue and liabilities to reduce overall financial costs; and more effectively enforcing the procedures for control of investment plans and cutting back on the number of non-production investment projects.

6. **Actively promote alliances and restructurings to enhance competitiveness**
Following the principle of "willing participation" laid down by the CAAC, Eastern Air Group Company (the "EA Group"), the holding company of the Company, is negotiating with China Yunnan Airlines and China Northwest Airlines concerning a merger and restructuring proposal, details of which were set out in the announcement issued by the Company on 28 April 2001. While neither the EA Group nor the

Company has reached any formal agreement with any airlines involved in the restructuring or has decided on the timing and the terms of the merger and restructuring, the Group has started to cooperate with the airlines involved in terms of marketing and sales, capacity allocation, schedule coordination, route extension and frequent flyer incentives, etc. with a view to expanding the Group's market share and enhancing its competitiveness. The Board of Directors will ensure that any disclosure and/or approval requirements under all applicable laws and regulations including the Listing Rules will be fully complied with in the implementation of the restructuring proposal.

SHARE CAPITAL

1. Change in share capital

As of 30 June 2001, there was no change in the Company's share capital since 31 December 2000.

2. Share capital structure

	Number of Shares	Percentage (%)
A shares		
Unlisted state-owned legal person shares	3,000,000,000	61.64
Listed shares	300,000,000	6.16
H shares (including H shares underlying American Depository Shares)	1,566,950,000	32.20
Total number of shares	4,866,950,000	100.00

3. Substantial shareholders

As of 30 June 2001, the following shareholders held 10% or more of the issued shares of the Company:

Name	Number of shares held	Percentage of shareholding (%)
Eastern Air Group Company	3,000,000,000	61.64
HKSCC (Nominees) Limited	1,453,537,999	29.87

4. Directors, chief executives, supervisors and senior management shareholding statement

Name	Position	Number of A Shares Held
Ye Yigan	Chairman of the Board of Directors, President of the EA Group	0
Liu Shaoyong	Director, President	0
Wan Mingwu	Director, Vice President	0
Cao Jianxiong	Director, Vice President of the EA Group	2,800
Zhong Xiong	Director, Vice President	2,800
Chen Quanxin	Director	2,800
Wu Baiwang	Director	0
Zhou Ruijin	Director	0
Gong Haocheng	Independent Non-executive Director	0
Hu Honggao	Independent Non-executive Director	0
Peter Lok	Independent Non-executive Director	0
Li Wenxin	Chairman of the Supervisory Committee	0
Ba Shengji	Supervisor	2,800
Zhou Rongcai	Supervisor	0
Yang Jie	Supervisor	0
Liu Jiashun	Supervisor	0
Wu Yulin	Vice President	2,800
Fan Ru	Chief Pilot	2,800
Yang Xu	Chief Engineer	0
Luo Weide	Chief Accountant	0
Luo Zhuping	Company Secretary	2,800

Except as disclosed above, as at 30 June 2001, none of the Directors, chief executives, senior management, supervisors of the Company nor their associates had any beneficial interest in the issued share capital or debt securities of the Company and/or any of its associated corporations (within the meaning as defined in the Securities (Disclosure of Interests) Ordinance) which were required to be entered in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

None of the Directors, chief executives, senior management or supervisors of the Company or any of their spouses or children under the age of 18 were granted any right to subscribe for any share capital or debt securities of the Company at the end of the six month period ended 30 June 2001.

MATERIAL MATTERS

1. **Dividends**
   The Board of Directors does not recommend any payment of interim dividends for the six months ended 30 June 2001.

2. **Influence of recent economic developments**
   During the second half of 2001, global economic growth is expected to remain weak and the U.S. and Japanese economies are expected to continue to experience difficulties. This is expected to have certain adverse impact on the growth of China's economy. However, the Group believes that, since the domestic economy of China is likely to maintain relatively steady growth, consumer demand in the tourism industry and demand for domestic air traffic are expected to continue to grow. In addition, the Company believes that China is close to joining the World Trade Organization which may also bring new opportunities for the growth of consumer demand.

3. **Purchase, Sale or Redemption of Securities**
   During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the securities of the Company (the term "securities" has the meaning ascribed thereto in paragraph 1 of part I of Appendix 7 to the Listing Rules).

4. **Acquisition and Merger**
   After consultation with China Civil Aviation Flying College, the original shareholder of Air Great Wall, the Group acquired the business of Air Great Wall in June 2001 (through the acquisition of certain assets and liabilities) for a total acquisition price of RMB270 million being payable by installments over nine years. On 9 June 2001, the Group established the Ningbo Branch of China Eastern Airlines Corporation Limited in Ningbo.

   In addition, as set out in the paragraph headed "Actively promote alliances and restructurings to enhance competitiveness" under the section headed "Outlook for the Second Half of 2001" above, the EA Group is negotiating with China Yunnan Airlines and China Northwest Airlines concerning a merger and restructuring proposal, details of which were set out in the announcement issued by the Company on 28 April 2001.

5. **Compliance with Code of Best Practice**
   None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not for at any time during the period of six months ended 30 June 2001, in compliance with "The Code of Best Practice" as set out in Appendix 14 to the Listing Rules.

6. Audit Committee

Pursuant to the resolutions passed at the board meeting of the Company on 23 August 2001, Mr. Gong Haocheng, Mr. Cao Jianxiong and Mr. Hu Honggao were appointed as members of the Audit Committee of the Company, with Mr. Gong Haocheng appointed as the chairman thereof; Mr. Wu Baiwang, Mr. Zhong Xiong and Mr. Cao Jianxiong were appointed as members of the Investment Audit Committee with Mr. Wu Baiwang appointed as the chairman thereof.

The Audit Committee has reviewed with management the accounting principles and practices accepted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2001 with the Directors.

7. Material Litigation and Arbitration

The Group was not involved in any material litigation or arbitration in the first half of 2001.

8. Waiver from Compliance with the Listing Rules

Pursuant to Rule 14.04(8) of the Listing Rules, The Stock Exchange of Hong Kong Limited has granted to the Company a waiver from strict compliance with the provisions of Chapter 14 of the Listing Rules, which relates to notifiable transactions, in relation to the acquisition or disposal of aircraft. The major terms of the waiver are summarized as follows:

(a) instead of the normal tests under Chapter 14 of the Listing Rules, the test for the Company will be made by reference to Available Tonne Kilometers ("ATKs") for aircraft being acquired or disposed of as compared to the Company's aggregate fleet ATKs;

(b) the proposed test will replace the net asset test and the consideration test only, while the net profit and equity capital issued tests as set out in Chapter 14 of the Listing Rules will continue to apply;

(c) the calculation of ATKs will be as follows:

(i) fleet ATKs will be the aggregate actual ATKs for all aircraft in the Company's fleet for the last financial year as disclosed in the Company's annual report;

(ii) ATKs for aircraft being disposed of will be based on actual ATKs of the aircraft for the previous two financial years;

(iii) ATKs for aircraft being acquired will be based on the historical operating data for the type of aircraft. Where the aircraft to be acquired is a new type, the ATKs will be estimated based on other aircraft of similar size operated by the Company or the average for the Chinese civil aviation industry;

(d) the Company's ATKs figure will be disclosed in the Company's annual report and be reviewed by auditors who will confirm on an annual basis that the Company's ATKs are calculated correctly and consistently;

(e) for the purposes of making the test stated in (a) above, all acquisitions and disposals for the last 12 months will be aggregated, unless the acquisition or disposal has previously been reported as a notifiable transaction pursuant to the rules set out herein;

(f) the thresholds for classifying a transaction as a discloseable, major or very substantial acquisition will be $33^{1}/_{3}$%, 50% and 100% (assuming that there are no circumstances which would make it a connected transaction or a share transaction);

(g) where the transaction is a discloseable transaction, disclosure will take the form of a press announcement complying with Rule 14.14 of the Listing Rules and details of the transaction will be set out in the Company's annual report and accounts. Where the transaction is a major transaction or a very substantial acquisition, the provisions of Chapter 14 of the Listing Rules will apply;

(h) an option to acquire aircraft will not be treated as acquisition while the exercise of such an option will be treated as acquisition of an aircraft;

(i) the Company will disclose in its annual reports and interim reports the following information:

 (i) regarding future deliveries of aircraft, details of aircraft on order including the number and type; and the years in which such aircraft are scheduled to be delivered;

 (ii) the number and type of aircraft which are subject to options exercisable during a period of not less than 12 months from the end of the financial year or period to which the annual report relates; and

(j) the granting of the waiver would also be conditional on the Company remaining a subsidiary of the EA Group.

9. Further Deliveries of Aircraft

As at 30 June 2001, the following are details of aircraft on order which are scheduled to be delivered:

Number of aircraft	*Type of aircraft*	*Year to be delivered*
3	A320	2001 (second half)
4	A319	2001 (second half)
2	A319	2002
3	A340-600	2003
2	A340-600	2004

Ye Yigan
Chairman of the Board
China Eastern Airlines Corporation Limited
Shanghai, 28 August 2001

DOCUMENTATION AND ADDRESS FOR REVIEW

Documentation for review: Original copy of the interim report for the six months ended 30 June 2001 and financial report with the signature of the Chairman.

Address for review: Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited, 2550 Hongqiao Road, Shanghai, the People's Republic of China.