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With *a strong focus*

on safety and customer

comfort, China Eastern

Airlines continually strives to

provide the best service.



Chairman's Statement

We will strive to achieve greater success in return for the support of our shareholders by seizing any opportunity as may be presented by the potential restructuring of the Chinese civil aviation industry, continuing our dedication to ensure safety, optimizing our transport capacity, increasing our sales efforts and controlling our financial management.



Ye Yigan, Chairman

A handwritten signature in black ink, consisting of stylized Chinese characters.

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 2001. 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 2001, global economic development slowed down, and the European, U.S. and Japanese economies continued to decline. The sudden terrorist attacks of 11th September plunged the world economy

into difficulty, with the air transport industry being one of the most severely impacted industry. Due to these external factors, China's economy experienced declining growth toward the end of 2001. However, under the Chinese Government's positive macroeconomic policies, a range of measures to stimulate domestic demand have been implemented and the gross national product achieved the targeted 7.4% growth rate.



Opening ceremony for the Ningbo branch office

Faced with the increasingly intense competition in the domestic air transport market and the sliding international market, the Group has formulated a number of business policies, such as centralizing its transport capabilities, capitalizing on its strengths and building a good brand name. The Group has also implemented a series of corresponding measures during the year 2001, including, among others, division of flights between Pudong and Hongqiao Airport in accordance with market demand and establishment of a Shanghai business office to strengthen its market activities and to increase its share of the Shanghai market. The Group has adjusted and re-allocated its transport capacity and has, by launching the “China Eastern Express” service, optimised its route network and increased its route earning rate. It made timely adjustments to its flight schedules by adjusting and bolstering its flights to Europe and the U.S. and adding

destinations in South Korea, thus increasing the competitive advantage of some of its international routes. The Group has also expanded its cooperation with American Airlines and has remodelled the entertainment system on its A340 Airbus aircraft . It improved its sales network and strengthened sales administration. At the end of April 2001, the Group joined the “Asia Miles” frequent flyer programme to attract a stable supply of passengers. The Company completed its acquisition of Air Great Wall in June 2001 and established the Company’s Ningbo branch based on the assets acquired from Air Great Wall. In addition, the Company committed to invest in Qingdao’s Liuting Airport to facilitate the development of the principal business of the Group. The Group has also strengthened its e-commerce research and development and launched the “Great Wall-China Eastern Airline Co-Branded Card” in cooperation with the Shanghai branch of the Bank of China, as part of its

constant effort to improve its on-line booking and payment system. During the Asia-Pacific Economic Cooperation (APEC) meeting in October 2001, the Company flew altogether 98 flights on private, chartered and official planes and successfully completed its task, winning praise from all sides.



The Company won the Five Star Diamond Award from the American Academy of Hospitality Sciences on March 20, 2001

In 2001, traffic volume of the Group totalled 2,373 million tonne-kilometres, an increase of 9.60% over the same period in 2000, while revenues from the Group’s principal business amounted to RMB11,679 million, an increase of RMB910 million or 8.45% over the same period in 2000. The average aircraft daily utilization was 9.1 hours, an increase of 0.4 hours over the same period in 2000.

The increase in revenues generated from the Group’s principal business in 2001 was mainly generated from the passenger air transport business operated by the Group. In view of the deliveries of new aircraft and

the acquisition of three Boeing 737 aircraft through the Company's acquisition of Air Great Wall, more transport capacity has been allocated by the Group to high-earning routes. Coupled with the continuing development of China's economy and the increase in the volume of business in trade and commerce, the traffic volume achieved by the Group in 2001 increased by a relatively larger margin compared to that in 2000.

In 2001, the Group's total operating costs amounted to RMB11,278 million, representing an increase of 8.01% over the same period in 2000. Such increase was primarily due to the increase in the number of flights, resulting in corresponding increases in such operating costs as consumption of aviation materials, landing and takeoff expenses and consumption of aviation fuel.

In addition, the Company has a significant percentage of Japanese Yen denominated liabilities. Due to the depreciation of the Japanese Yen in 2001, the Group's books showed a foreign currency exchange gain of RMB126 million for 2001.

In 2001, the Company flew more than 200,000 hours and carried more than 10 million passengers. It remained profitable despite the general slump in the global civil air transport industries.

The Group's profit attributable to shareholders for the year ended 31 December 2001 amounted to RMB542 million, an increase of 208.06% over the same period in 2000.

Outlook for the year 2002

The Group would like to caution readers that this annual report contains, inter alia, some 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 Company believes that, as a whole, during 2002 it will face a relatively positive economic climate domestically, while the global economy has shown signs of recovery. It brings both opportunities and challenges to the air transport market.

Internationally, economic globalisation has accelerated the development of the world economy, but it has also exacerbated the potential risks and crises in all main industries. The issue of whether or not the European, U.S. and Japanese economies can successfully recover will have an extremely significant impact on world economic trends.

Taking a look at the domestic situation, China has successfully been selected to host the Olympics and has acceded to the World Trade Organisation. The Company believes that with the implementation of positive financial policies by the Chinese Government, a steady growth in the domestic economy will be assured. Since 1992, Shanghai, the base from which the Group has principally been operating its business, has for ten consecutive years attained double-digit growth in its gross domestic product (GDP). As the leading city



Formation of the Shanghai Sales Division



The Company wins the "2011 Passenger Appraisal of Civil Aviation" award

of China, Shanghai has maintained an open and developing economy. Its foreign-related businesses, such as its foreign trade and foreign investment, have steadily increased. In addition, the potential growth in the economic development of Shanghai has increased significantly, gradually turning it into a global production center city of the twenty-first century. Further, the expansion in the volume of import and export trade and the pace of commercial activities will further promote the expansion of the air transport market, thereby resulting in an expected and steady increase in the passenger and cargo traffic volume of the Group.

The structure of consumption in China has reached a new level, with travel consumption becoming a hot spot. In addition, individual income levels are rising. Over all, the prospects for civil aviation development in China are positive, as there are quite a few

favourable factors. 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 Government has deepened its efforts to reform civil aviation and to reduce the involvement of the government in the operation of enterprises. The strategic restructuring of air carriers is expected to achieve progress this year. With the comprehensive implementation of the strategy to develop Western China by the

Chinese Government, the air transport businesses operated by the Group in the Western China region is expected to achieve significant developments.

The Group believes that the operation of its domestic and Hong Kong routes will continue to grow. The expansion of its fleet and the increase in its efficiency will enable the Company to increase its flight frequency on domestic and regional routes and to increase its market share. Moreover, the Group will take advantage of events such as the 2002 FIFA World Cup in Korea and Japan, the Asian Games in Pusan, etc., traditional holidays and festivals and the peak traffic season to timely adjust and allocate capacity, comprehensively increase the Company's traffic volume and boost the Company's traffic revenues.

In view of the current market demand, the country's economic and social development and macroeconomic policies, the Chinese government will adjust its policies and strengthen its



Press conference for the promotion of the "China Eastern Express" service



In May 2001, the Company completed its maiden "Polar Flight" over the North Pole

regulation of the air transport industry. The Group expects the competition in the domestic market to become more regulated and orderly. The Group believes that in 2002, demand in the air transport market will continue to increase, gradually improving the balance between demand and supply in the market. The Group will formulate a prudent aircraft purchase policy based on market demand and its own fleet expansion needs.

In response to the business environment and aviation market conditions it will face in 2002, the Company will duly carry out the following strategies to enhance its competitiveness:

1. To increase flight safety, maintain quality service and build positive image

The year 2001 was the Group's 8th safe flight year. The Company's objective for 2002 is again to focus on safety and to strictly enforce safety rules. During 2002, the first phase of AOC will be completed and start to operate. The monitoring of flights throughout their voyages will further raise

the level of safety administration. In addition, the Group will earnestly study developments in international terrorism and specific public security issues, take due precautions and make efforts to realize another safe flight year.

In the "2001 Passenger Appraisal of Civil Aviation", the Group ranked number one in terms of overall service. Focusing on individualized services, the Company will strengthen its control of transport service quality and improve service quality across the Group, so as to ensure that the average on-time rate for flights in 2002 reach 80% or above. In addition, the Company will use its hosting of the IATA annual meeting as an opportunity to improve service quality and enhance its international status.

2. To improve transport capacity, to strengthen and improve our operation of the European, American and Australian routes and to expand our operations of the Hong Kong, Japanese and Korean routes

The Company intends to purchase four Boeing 737-700 aircraft and to acquire, under operating leases, two Boeing 737-700 aircraft and two A319 airbuses in 2002. To ensure an optimal allocation of transport capacity, the Company will:

(i) optimize the allocation of transport capacity and the routes; promote the "China Eastern Express" service and other service brand names; strengthen and improve the European, American and Australian routes; increase our competitiveness on some of the other international long-haul routes; actively expand high-earning routes such as Hong Kong, Japanese, Korean and Southeast Asian routes by increasing flight frequency, increasing development efforts, and focusing on the improvement of quality; optimise the structure of the domestic flight network; increase the number of passengers carried, the load factor and the revenue in the Eastern China region and, in particular, Shanghai; and take advantage of restructuring opportunities to develop its air transport industry in the Western China region;

(ii) increase flight allocation during holidays and festivals, concentrate capacity to ensure traffic on popular routes and during peak seasons, actively arrange extra flights and charters and develop new sources of financial growth; and

(iii) further develop our cargo business and, based on the trend of modern logistics and the demand in the cargo transport market, improve our transport network and develop transit cargo transport; introduce competitive sales methods to steadily increase cargo transportation.

3. To strengthen marketing efforts, increase domestic and Shanghai market share and implement strategy of localising international sales

(i) In December 2001, the Company established its Shanghai business office which will commence operations in 2002, with a view to strengthening and enhancing the Company's geographical coverage and market share in the Southeast China regions, and, in particular, market share in Shanghai.

(ii) The Company will implement a strategy of localizing international sales by

recruiting an American expert specialised in sales and promotion as the vice-president to take charge of sales and promotion work over the U.S. regions, thereby increasing foreign sales volumes. In 2002, the Company will also recruit altogether 42 Korean air stewards for the China-Korea routes, in the hope of enhancing the quality of services provided by the Company towards Korean passengers and increasing the Company's competitiveness over Korean routes.

(iii) In 2002, the Company will further improve code-sharing arrangements with foreign airlines, expand the scope of cooperation, revise existing special prorate agreements (SPA) and enter into new ones, further explore and investigate the possibilities of entering into air-alliances, arrange and develop targeted sales promotions, strengthen joint operations with domestic airlines and improve relations with sales agents.

(iv) The Company will pay particular attention to the tourism market and actively develop flight schedules during holidays and festivals. It will enhance the quality of frequent flier services, increase its long-term customer resources, develop "Flight & Hotel" arrangements and expand its Golden Swallow Club membership services.

(v) The Company will allocate more resources to the brand-new website it launched at the end of 2001 in order to further improve its functions as a modern business platform and improve and enhance the functions of its on-line booking system. The Company will also develop the use of electronic tickets. In addition, the Company will try to cooperate with more Internet companies to further an on-line membership application function so as to provide its passengers with all kinds of on-line services.

4. To ensure strict administration of financial affairs and strengthen cost control

The Company believes that the uncertainty in aviation fuel prices in 2002 will be relatively high. In addition, the lease payments for the newly acquired aircraft and depreciation will increase the costs and expenses of the Company in 2002. In this respect, the Company will adopt the following measures:



Commemoration of the tenth anniversary of the Company's launch of its U.S. routes



(i) to closely monitor the fluctuations in fuel prices and, to the extent permitted by law, to enter into forward contracts and futures transactions in an effort to reduce the operating expenses to be incurred by the Company in the consumption of aviation fuel;

(ii) to reduce inventories of aviation materials and expand cooperation with other companies so as to reduce working capital spent on aviation materials; and

(iii) to strengthen the administration of earnings and improve the settlement system so as to stop the loss of transport revenue; and to formulate optimal sales agent incentive to lower the sales expenses as a percentage of the Company's revenues from its principal business.

5. To actively expand mergers and reorganisations and expand the scale of the Group's operations

The Group will take advantage of the opportunities as may be presented by the strategic restructuring of the Chinese civil aviation industry with a view to expanding the scale of operations of the Group, capitalizing on its strength in market share, routes, fleet and human resources and improving the environment of the market in which the Group operates. In addition, the Company will continue to select regional airlines with strengths that would complement the Company's businesses (and vice versa) as potential alliance partners in the hope of establishing a network

that better interconnects its domestic and international routes and increasing its share of the domestic market.

I firmly believe that in the coming year, the Company will consolidate and continue to build upon its competitive 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.

Ye Yigan
Chairman



Ceremony commemorating the Company's first "4C" overhaul check for the Airbus 340 aircraft