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With *a focus on efficient*

*and quality service, China*

*Eastern Airlines strives to*

*become the airline of choice for*

*business and leisure travelers.*



# Report of Directors

*The Group is one of the three largest air carriers in China based on tonne-kilometers and number of passengers carried in 2001, and is the primary air carrier serving Shanghai, China's largest economic, trading and financial center.*

## Group Activities and Results

The Company is one of the three largest air carriers in the PRC based on tonne-kilometres and the number of passengers carried in 2001 and is the primary air carrier serving Shanghai, the largest economic, trading and financial centre of the PRC. The results of the Group for the year ended 31 December 2001 and the financial position of the Company and the Group as at that date, prepared in accordance with the IAS and the PRC Accounting Standards, are set out in the financial statements.

The board of directors ("Board of Directors") of the Company is pleased to present the audited financial report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2001.

Details of the Company's principal subsidiaries are set out in note 16 to the financial statements prepared in accordance with IAS.

The geographical analysis of the Group's traffic revenue is as follows:

	PRC Accounting Regulations (RMB'000)	IAS (RMB'000)
PRC	5,734,273	4,987,486
Hong Kong Special Administrative Region ("Hong Kong")	2,257,362	2,145,732
International	4,747,139	4,545,392
<b>Total</b>	<b>12,738,774</b>	<b>11,678,610</b>

### Dividends

As at 31 December 2001, the Company's accumulative distributable profits were approximately RMB171,153,681 based on the financial statements prepared in accordance with the PRC accounting standards. Having considered the Company's cash flow and operating needs in 2002, the Board of Directors recommended payment, in respect of the Company's accumulative undistributed profits attributable to its shareholders, of a cash dividend of RMB0.02 per share (including tax) based on an aggregate of 4,866,950,000 shares of the Company as at 31 December 2001. Holders of H shares of the Company will receive a dividend in an equivalent amount based on the foreign exchange conversion rate published by the People's Bank of China on the date of the distribution of the cash dividend, representing a total cash dividend payment of RMB97,339,000 (excluding the expenses for the distribution of the above dividend). The balance of the undistributed profits attributable to the shareholders of the Company will be carried over to next year. The Company will not convert funds from the common reserve to increase its share capital during this period. The Board of Directors also decided that the above dividend distribution proposal will be submitted to the 2001 Annual General Meeting to be convened on 18 June 2002 for approval.



The Company's register of members for H shares will be closed from 18 May 2002 to 17 June 2002 (both days inclusive), during which period no transfers of H shares will be registered. Holders of H shares who wish to attend the Annual General Meeting and to

be listed on the distribution list for final dividend distribution must deliver their instruments of transfer and the relevant share certificates to Hong Kong Registrars Limited, the Registrar of H shares of the Company, no later than 4 p.m. on 17 May 2002.

### Share Capital Structure

As at 31 December 2001, the share capital structure of the Company was as follows:

	At the beginning of the period (10,000 shares)	Percentage (%)	Increase/ (Decrease) during this period (10,000 shares)	At the end of the period (10,000 shares)	Percentage (%)
1. Unlisted Shares					
State-owned legal person shares	300,000	61.64	0	300,000	61.64
2. Listed shares					
(a) H Shares	156,695	32.19	0	156,695	32.19
(b) A Shares	30,000	6.17	0	30,000	6.17
3. Total number of shares	486,695	100	0	486,695	100

### Number of Shareholder

As at 31 December 2001, the total number of registered shareholders of the Company was 162,993.

## Substantial Shareholders

As at 31 December 2001, the 10 largest shareholders of the Company and their respective shareholdings are as follows:

Name	Number of shares held	Shareholding (%)
1. EASTERN AIR GROUP COMPANY ("EA Group")	3,000,000,000	61.64
2. HKSCC NOMINEES LIMITED	1,456,575,999	29.93
3. GALAXY SECURITIES	7,837,851	0.16
4. RONGZHENG INVESTMENT	7,531,088	0.15
5. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED A/C BR-9	3,000,000	0.06
6. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED A/C BR-43	2,276,000	0.047
7. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED	2,162,000	0.044
8. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED A/C BR-41	2,122,000	0.0436
9. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED A./C BR-42	2,000,000	0.041
10. XINGHE FUND	1,740,368	0.036

The respective interests of EA Group and HKSCC Nominees Limited have been registered in the register of interests kept by the Company pursuant to the Securities (Disclosure of Interests) Ordinance (Chapter 396, Laws of Hong Kong) (the "SDI Ordinance").

Except as disclosed above, the Directors are not aware of any person (other than the Directors, chief executive, senior management or supervisors of the Company) who as at 31 December 2001 was interested in 10% or more of any class of share capital of the Company which was required to be recorded in the register of interests of the Company pursuant to section 16(1) of the SDI Ordinance.

## Controlling Shareholder

EA Group is the PRC-incorporated holding company of the Company. Mr. Ye Yigan is the legal representative of EA Group. EA Group is mainly engaged in the management of its subsidiaries and the sale of goods produced by its subsidiaries. EA Group also provides catering, boarding and lodging services, air courier services, transportation of passengers and goods on land, and other land transportation services, as well as the sale of food and souvenirs on aircraft. As at 31 December

2001, the shares of the Company held by EA Group were not pledged.

## Acquisitions and Mergers

After negotiation with China Civil Aviation Flight 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, payable by instalments over nine years. On 9 June 2001, the Company established its Ningbo Branch in Ningbo.

EA Group will, pursuant to a merger and restructuring proposal, undergo a restructuring involving China Yunnan Airlines and China Northwest Airlines. This restructuring proposal has yet to be finalised. For details please see the announcement issued by the Company on 6 February 2002.

After numerous rounds of negotiations, on 20 January 2002, the Company preliminarily agreed in principle with Wuhan Airlines on matters concerning

## Report of Directors

joint investment in, and the establishment of, China Eastern Airlines Wuhan Co., Ltd. For details please see the announcement issued by the Company on 19 March 2002.

### Purchase, Sale or Redemption of Securities

During the year ended 31 December 2001, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities (the term “securities” has the meaning ascribed thereto in paragraph 1 of part I of Appendix 7 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### Compliance with the Code of Best Practice

The Company has at all times throughout the year ended 31 December 2001 complied with the “Code of Best Practice” set out in Appendix 14 to the Listing Rules.

### Pre-emptive Rights

Under the articles of association of the Company and the PRC laws, no pre-emptive rights exist which require the Company to offer new shares to existing shareholders on a pro rata basis.

## Directors, Supervisors, and Senior Management

Names, relevant information of and shares held by the Directors, supervisors (“Supervisors”) and senior management of the Company during 2001 and as at the date of this report are as follows:

Name	Position	Age	A shares held
Ye Yigan	Chairman of the Board of Directors	59	0
Liu Shaoyong	Director, President	44	0
Wan Mingwu	Director, Vice President	55	0
Cao Jianxiong	Director	43	2,800
Zhong Xiong	Director, Vice President	56	2,800
Chen Quanxin	Director	60	2,800
Wu Baiwang	Director	59	0
Zhou Ruijin	Director	63	0
Gong Haocheng	Independent Non-executive Director	74	0
Hu Honggao	Independent Non-executive Director	48	0
Peter Lok	Independent Non-executive Director	65	0
Li Zhongming*	Chairman of the Board of Directors	61	2,800
Shen Zejiang*	Director	49	2,800
Xiao Liyuan*	Director	52	2,800
Zhu Tonghai*	Director	60	2,800
Li Wenxin	Chairman of the Supervisory Committee	53	0
Ba Shengji	Supervisor	43	2,800
Zhou Rongcai	Supervisor	57	0
Yang Jie	Supervisor	32	0
Liu Jiashun	Supervisor	45	0
Wu Yulin	Vice President	53	2,800
Fan Ru	Chief Pilot	52	2,800
Yang Xu	Chief Engineer	41	0
Luo Weide	Chief Accountant	46	0
Luo Zhuping	Secretary of the Board	49	2,800

\* resigned in June 2001

As at the date of this report, a brief biography in respect of each of the Directors, Supervisors and senior management officers of the Company is as follows:

Mr. Ye Yigan is the incumbent Chairman of the Board of Directors. Mr. Ye joined the civil aviation industry in 1965. From 1983 to 1985 he served as deputy chief engineer of the CAAC Shanghai Bureau. From 1985 to 1987 he served as head of the aircraft repair factory of the CAAC Shanghai Bureau. In December 1987 he became deputy head of the CAAC East China Bureau. From 1992 to 1996 he served as president and deputy party secretary of China Aviation Supplies Corp. From June 1996 to 2000 he served as head and party secretary of the CAAC East China Bureau. Since April 2001 he has been president and party secretary of EA Group. Mr. Ye became Chairman of the Board of Directors of the Company in June 2001. Mr. Ye graduated from the China Civil Aviation Institute in Tianjin, with a major in aircraft instrument maintenance .

Mr. Liu Shaoyong is currently Director and President of the Company. Mr. Liu joined the civil aviation industry in 1978. From 1993 to 1995 he was deputy fleet leader and fleet leader of the Taiyuan fleet of China

General Aviation Corporation. From 1995 to 1997 he was deputy general manager of China General Aviation Corporation and deputy director of the CAAC Shanxi Bureau. From 1997 to 1999 he was general manager of the Company's Shanxi branch and from 1999 to 2000 he was director of CAAC's department of flight standards. Since December 2000 he has been President and deputy party secretary of the Company. Mr. Liu graduated from the China Civil Aviation Flight Academy. In 1999, he graduated from the graduate school at the Tianjin School of Finance and Economics, majoring in international trade. He holds the title of First Class Pilot.

Mr. Wan Mingwu is currently a Director of the Company as well as its party secretary and Vice-President. Mr. Wan joined the civil aviation industry in 1968. From 1983 to 1990 he was deputy section chief and section chief of the cadre section of the political department of the CAAC Shenyang Bureau. From 1990 to 1992 he was section chief of the personnel section of China Northern Airlines. From 1992 to 1995 he was deputy party secretary of China Northern Airlines and from 1995 to 2000 he was party secretary of China Northern Airlines. Since December 2000 he has been party secretary and Vice-President of the Company. Mr. Wan graduated from Civil

Aviation Mechanics Vocational School. Mr. Wan is a college graduate and holds the title of senior political work instructor.

Mr. Cao Jianxiong is currently a Director of the Company. Mr. Cao joined the aviation industry in 1982. From 1992 to 1994 he served as president of Shanghai Eastern Airlines Development Company and in 1994 he became president of Eastern Airlines Futures Brokerage Company. In 1996 he served as an assistant to the President of the Company. From 1997 to 1999, he served as Vice-president and Chief Accountant of the Company. Since December 1999, he has served as Vice-president of EA Group. Mr. Cao graduated from the Civil Aviation Management Institute of China with a major in labour economics. Mr. Cao also received a Master's degree in global economics from Eastern China Normal University's Department of International Finance. Mr. Cao holds the title of Economist.

Mr. Zhong Xiong is currently a Director and a vice president of the Company. Mr. Zhong joined the civil aviation industry in 1970. From 1986 to 1988, he was assistant manager of Transportation Services Company of the CAAC Shanghai Bureau and was manager of sales and transportation department of China



## Report of Directors

Eastern Airlines from 1988 to 1992. From 1992 to April 1995, he was vice president of China Eastern Airlines. Since May 1995, Mr. Zhong has been a vice president of the Company. He graduated in 1970 from the English Department of Liaoning Teacher's College and holds the title of Economist.

Mr. Chen Quanxin is currently a Director of the Company. Mr. Chen joined the civil aviation industry in 1965. From 1983 to early 1987, he was deputy manager and, from early 1987 to end of 1987, manager of Transportation Services Company of the CAAC Shanghai Bureau. From the end of 1987 to 1992, Mr. Chen was chief of the China Eastern Airlines administrative office. From 1992 to 1996, Mr. Chen served as chairman of the workers' union of China Eastern Airlines. From the end of 1996 to 1997, he was the chairman of the workers' union of EA Group. From 1997 to 2001, he served as chairman of the workers' union of the Company. Mr. Chen has since retired.

Mr. Wu Baiwang is currently a Director and party secretary of Guangzhou Baiyun Airport. Mr. Wu joined the civil aviation industry in 1959 and was deputy head and subsequently head of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From

1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. In September 1995, he became the general manager of China General Aviation Corporation. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

Mr. Zhou Ruijin is currently a director of the Company. Mr. Zhou was deputy editor-in-chief and the East China regional director of the People's Daily. From 1988 to 1993, Mr. Zhou was party secretary and deputy editor-in-chief of the Liberation Daily. From 1994 to 1996 he was deputy editor-in-chief of the People's Daily and from 1996 to 2000 he was deputy editor-in-chief and the East China regional director of the People's Daily. Mr. Zhou graduated from the journalism department of Fudan University in 1962.

Mr. Gong Haocheng is currently an independent non-executive Director. He is the chairman of the supervisory committee of China Guo Tai Securities Co., Ltd., president of the Shanghai Institute of Securities and Futures, and a professor at the Shanghai University of Finance, Shanghai University of Communications and Eastern China College of Law and Politics. From 1984 to 1991, he was assistant branch manager and then branch manager of the Shanghai Branch of

People's Bank of China, and head of the Shanghai Bureau of the State Administration of Foreign Exchange. Mr. Gong was involved in the establishment of the Bank of Communications, the Shanghai Stock Exchange and the Shanghai Foreign Exchange Swap Centre.

Mr. Hu Honggao is currently an independent non-executive Director. He is the vice dean and professor of law at Fudan University School of Law, supervising graduate students majoring in civil and commercial law at Fudan University. He also serves as the head of the Civil and Commercial Law Research Centre of Fudan University. He is also a senior lawyer at the Shanghai Shen Yang Law Office. Mr. Hu is a managing director of China Commercial Law Research Society, a member of the Legislative Consultation Committee of the Shanghai Municipal Government, vice-chairman of the Shanghai Economic Law Research Society and an arbitrator of the Shanghai Arbitration Committee.

Mr. Peter Lok is currently an independent non-executive Director. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England

from 1968 to 1973. In 1982, he became the assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became the deputy director in 1988, and subsequently the director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996. He has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

Mr. Li Wenxin is currently Chairman of the Company's Supervisory Committee. Mr. Li joined the civil aviation industry in 1970. From 1992 to 1995 he was secretary of the disciplinary committee of China General Aviation Company. From 1995 to 1996 he was deputy party secretary of China General Aviation Corporation. From 1996 to 1998 he was deputy general manager of China General Aviation Corporation and in February 1998 he assumed the post of party secretary and executive deputy general manager of the Shanxi branch of the Company. He is currently deputy party secretary and secretary of the disciplinary committee of Eastern Air Group. Mr. Li

received a university education and is a qualified senior political work instructor.

Mr. Ba Shengji is currently a Supervisor. Mr. Ba joined the civil aviation industry in 1978. From 1980 to 1988, Mr. Ba was an accountant at the Department of Finance of the CAAC Shanghai Bureau. From 1988 to 1993, he served as the section head of the Department of Finance of China Eastern Airlines. In 1993, Mr. Ba became the deputy head of the Department of Finance of China Eastern Airlines. In 1997 Mr. Ba became the chief officer of the auditing office of the Company. He is currently the head of EA Group's auditing department. Mr. Ba received a university education and is a qualified auditor.

Mr. Zhou Rongcai is currently a supervisor and vice-chairman of the workers' union of the Company. Mr. Zhou joined the civil aviation industry in 1972. From 1979 to 1987 he was an instructor with the 5th Fleet (3rd Team) of the CAAC. From 1987 to 1992 he was an instructor and a deputy political commissar with the Shanghai Fleet (3rd Team) of China Eastern Airlines. From 1992 to 1996 he was deputy department head of the organization department of China Eastern Airlines and from 1996 to 1997 he was head of the general office of the China Eastern workers' union. Since 1997 he has been head of the

general office and vice-chairman of the workers' unions of the Company and EA Group. Mr. Zhou graduated from the Shanghai Air Force Political Academy.

Ms. Yang Jie is currently a supervisor of the Company. Ms. Yang joined the civil aviation industry in 1992. From 1996 to 1998 she was electronic technology supervisor of the technology office and Communist Youth League secretary of the overhaul department at the aircraft maintenance base of the Company. From 1998 to 2000 she was Communist Youth League deputy secretary of the aircraft maintenance base of the Company. She is currently deputy secretary of the Company's Communist Youth League. Ms. Yang graduated with a major in aviation electronics from the China Civil Aviation Academy and is a qualified engineer.

Mr. Liu Jiashun is currently a supervisor of the Company. From 1993 to 1999, Mr. Liu was party secretary, deputy general manager and secretary of the disciplinary committee secretary of China Aviation Fuel Hainan Company, as well as chairman of the board (legal representative) and president of Hainan Nanyang Air Transport Co., Ltd. From 1997 to 1999 he was also in charge of fuel supply engineering at Haikou's Meilan Airport and served as director of Meilan



Airport Co., Ltd. and vice chairman of the board and president of Meilan Industrial Co., Ltd. From 1999 to 2000 he was deputy party secretary of China Aviation Fuel East China Company and he is currently deputy party secretary and secretary of the disciplinary committee of the East China branch of China Aviation Fuel Company. Mr. Liu is a former graduate student and has qualifications as a political work instructor.

Mr. Wu Yulin is the vice-president of the Company. Mr. Wu joined the civil aviation industry in 1966. From 1975 to 1985, he was the deputy head, and from 1985 to 1988, the head of the 5th Fleet of the CAAC. In 1998, Mr. Wu became the head of the Company's Shanghai Fleet. From 1989 to 1994, Mr. Wu was the deputy chief, and from 1994 to 1995, the chief of the Aviation Skills and Management Department of China Eastern Airlines. He was the director of China Eastern Airlines' Safety Supervision Department from 1995 to 1997, deputy pilot and chief of the Safety Supervision Department of the Company from 1997 to 1998 and president and party secretary of the Hebei Branch office of the Company from 1998 to 1999. Mr. Wu became vice president of the Company from December 1999. Mr. Wu graduated

from Chinese Civil Aviation School and holds the title of First Class Pilot.

Mr. Fan Ru is the chief pilot of the Company. Mr. Fan joined the civil aviation industry in 1968. Mr. Fan was the deputy head of the 5th Fleet of the CAAC from 1985 to 1988, the deputy head of China Eastern Airlines' Shanghai Fleet from 1988 to 1995, the chief of the Aviation Skills and Management Department of China Eastern Airlines from 1995 to 1997 and the deputy pilot and chief of the Aviation Skills and Management Department of the Company from 1997 to 1999. Mr. Fan became the chief pilot of the Company from December 1999. Mr. Fan graduated from the Chinese Civil Aviation School and holds the title of First Class Pilot.

Mr. Yang Xu is the Chief Engineer of the Company. Mr. Yang joined the civil aviation industry in 1982. Mr. Yang was president of the Aircraft Repair and Maintenance Department of China Eastern Airlines from 1993 to 1997, the vice-president of the Aircraft Repair and Maintenance Base of the Company from 1997 to 1998, and president and deputy party secretary of the Aircraft Repair and Maintenance Department of the Company from 1998 to 1999. Mr. Yang has been the Chief Engineer of the Company since

December 1999. Mr. Yang graduated from the Nanjing University of Aeronautics and Astronautics with a major in aircraft design and holds the title of Senior Engineer.

Mr. Luo Weide is the Company's Chief Accountant and Chief Financial Officer. In 1976 Mr. Luo began his military service at the Air Force in Liuan Airport. From 1986 to 1991 he successively served as secretary of the general party branch and deputy bureau director of the Putuo branch of the Shanghai Municipal Tax Bureau. From 1991 to 1993 he concurrently served as head of the finance bureau and the state asset bureau of Putuo District, Shanghai. From 1993 to 1998 he successively served as deputy chief accountant, chief accountant and executive deputy general manager of Shanghai Jinqiao (Group) Co., Ltd. From 1998 to 2000, he was vice-president of Shanghai Pudong Development (Group) Co., Ltd. and chairman of the board and general manager of Pudong Finance Company. Since 2000 he has been the Chief Accountant and Chief Financial Officer of the Company. Mr. Luo graduated from the Sino-European International Business School in 1999 and received a Master's degree in business administration. He holds the titles of Senior Accountant and Senior Economist.



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

Economic and Trade Commission and Morgan Stanley.

### Re-election of Directors and Personnel Changes

In view of the expiry of the term of office, and the re-election, of the Directors and reallocation of responsibilities, it was resolved at the shareholders' general meeting of the Company held on 29 June 2001 that Mr. Li Zhongming, Mr. Shen Zejiang, Mr. Xiao Liyuan and Mr. Zhu Tonghai were no longer directors of the Company and that Mr. Ye Yigan, Mr. Liu Shaoyong, Mr. Wan Mingwu and Mr. Cao Jianxiong were appointed as new directors. On the same day, the Board of Directors elected Mr. Ye Yigan as the Chairman of the Board of Directors and appointed Mr. Liu Shaoyong as President, Mr. Wan Mingwu,

Mr. Zhong Xiong and Mr. Wu Yulin as Vice Presidents, Mr. Luo Weide as Chief Accountant and Mr. Luo Zhuping as the secretary of the Board of Directors. The aforementioned appointments became effective on 29 June 2001.

### Interests of Directors, Chief Executive, Supervisors and Senior Management in the Share Capital of the Company

Except as disclosed in this report, none of the Directors, chief executive, Supervisors or senior management of the Company had, as at 31 December 2001, any interests in any shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required pursuant to section



29 of the SDI Ordinance to be entered in the register referred to therein, or any interests in warrants to subscribe for shares in the Company or any associated corporation (as so defined) or any interests which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of Supervisors, which would be required to be notified as described above if they had been Directors.

At no time during the year was the Company or any of its subsidiaries, their holding companies or jointly controlled

entities a party to any arrangement to enable the Directors, Supervisors, chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of acquisition of, or subscription for, shares in, or debentures of, the Company or any other body corporate.

### Service Contracts of Directors and Supervisors

No Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

### Interests of Directors and Supervisors in Contracts

Except as disclosed in this report, none of the Directors or Supervisors had any material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

### Remuneration of Directors and Supervisors

Details of remuneration of Directors and Supervisors are set out in note 8 to the financial statements prepared in accordance with IAS.

### Employees

As at 31 December 2001, the Group had approximately 13,500 employees, a majority of whom worked in the PRC.

### Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in notes 26 to 27 to the financial statements prepared in accordance with IAS.

### Interest Capitalized

Interest capitalized for the Group as calculated in accordance with IAS for the year ended 31 December 2001 was RMB 59.81 million.

## Fixed Assets

Movements of fixed assets of the Company and the Group during the year are summarized in note 14 to the financial statements prepared in accordance with IAS.

## Reserves

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2001 are set out in note 29 to the financial statements prepared in accordance with IAS.

## Statutory Common Welfare Fund

Details in relation to the statutory common welfare fund, such as the nature, application and movements in the fund, and the basis of its calculation, including the percentage used for calculating the amounts, are set out in note 29(b) to the financial statements prepared in accordance with IAS.

## Tax Rate

The Company has always paid income tax in full in accordance with the tax policies of the People's Republic of China. As the Company's legal address was changed to 66 Airport Street, Pudong International Airport, Shanghai, China, from 1 July 2001, the Company began to enjoy the enterprise income tax incentive policy offered in the

Pudong New Area under which its tax rate was reduced from 33% to 15%. See note 9 to the financial statements prepared in accordance with IAS.

## Donations

During the year, the Group made donations for charitable purposes amounting to RMB668,340.

## Curtailment of Medical Benefits

For details of the curtailment of the Group's medical benefits as at 31 December 2001, please see notes 4 and 33 to the Group's financial statements prepared in accordance with IAS.

## Employees' Retirement Scheme

Details of the Company's employee retirement scheme and post retirement benefits are set out in note 33 to the financial statements prepared in accordance with IAS.

## Major Suppliers and Customers

As at 31 December 2001, the cost of aircraft and related equipment and other purchases from the Group's largest and five largest suppliers accounted for approximately 44.64% and 65.94%,

respectively, of the total purchases. The aggregate percentages of sales attributable to the Group's five largest customers are less than 5% and therefore no additional disclosure with regard to major customers is made.

One of the five largest suppliers is Shanghai Eastern Air Catering Co. Ltd. ("Eastern Air Catering"), which is 60% owned by EA Group. The cost of food and beverages purchased by the Group from Eastern Air Catering in 2001 accounted for approximately 6.18% of the Group's total purchases.

Except as disclosed above, none of the Directors or Supervisors or their associates nor any shareholder holding 5% or more of the Company's share capital had any interest in any of the above mentioned suppliers and customers.

## Material Contracts

Details of material contracts entered into subsequent to the balance sheet date are set out in note 41 to the financial statements prepared in accordance with IAS.

## AGM and Board Meetings

### AGM

On 29 June 2001, the Company held its 2000 AGM at Bai Hua Hall, Fourth Floor,

## Report of Directors

2nd Door, Pine City Hotel, 8 Dong'an Road, Shanghai, The People's Republic of China to discuss various resolutions proposed by the Board. Ordinary resolutions were passed to approve each of the following matters: the Directors' report, the Supervisory Committee's report, the audit report and the profit appropriation proposal of the Company for the year ended 31 December 2000; the proposal to set off the deficit of the shareholders' equity against the "Turnover Fund for Housing"; the appointment of auditors and the appointment and resignation of directors and supervisors of the Company. Special resolutions were passed to approve the amendment of the Company's articles of association and to change its legal registered address.

### **Board Meetings**

During 2001 the Board of Directors held three regular meetings and four ordinary meetings and passed, among others, the following resolutions:

Approving the Company's business plan and investment proposal for 2001 and the working report of the President of the Company for 2000; approving in principle the proposed acquisition of 15 feeder aircraft (50-seaters) and, if approved by the government, additional 70-seater feeder aircraft over a number of years; approving the draft of the annual results

announcement of the Company for 2000, the PRC and international audited financial reports of the Company and the profit distribution proposal; approving the submission of the proposed setoff of the deficit in the Company's "Turnover Fund for Housing" against owner's equity to the shareholders' general meeting for approval; deciding the date for convening the year 2000 annual shareholders' general meeting and determining the agenda for the same; approving the draft of the interim results announcement of the Company for the year 2001 and the PRC and international financial reports of the Company for 2000; approving the change of the Company's legal registered address from 2550 Hongqiao Road, Shanghai to 66 Airport Street, Pudong International Airport, Shanghai and the amendment of the pertinent provisions of the Company's articles of association, as well as the submission of the proposed amendment to the articles of association to the Company's shareholders' general meeting for approval; approving the remodelling of the in-flight entertainment system on the Company's A340 aircraft; deciding to change the form of the joint venture with China Civil Aviation Flight College with respect to Air Great Wall such that the Company acquired Air Great Wall's assets and restructured it as the Company's Ningbo branch; approving the Company's participation in the reorganisation and

restructuring of Wuhan Airlines as sponsor and the Company's equity participation in Qingdao's Liuting Airport; reviewing and approving the results of the Company's fixed asset appraisal using 31 December 2000 as the reference date and deciding to engage an independent asset appraiser to re-appraise the Company's assets and forecast the amount of funds required for distribution to employees in the form of home purchase subsidies in lieu of housing using 30 June 2001 as the reference date; to elect Mr. Ye Yigan as the Company's Chairman of the Board; approving the engagement of Mr. Liu Shaoyong as the Company's President and, on the recommendation of the President, Mr. Liu Shaoyong, approving the engagement of Mr. Wan Mingwu, Mr. Zhong Xiong and Mr. Wu Yulin as the Company's Vice-presidents, the engagement of Mr. Luo Weide as the Company's Chief Accountant and the engagement of Mr. Luo Zhuping as the Company's Secretary of the Board; approving the proposal for the partial restructuring of the Company; approving in principle the establishment of China Eastern Airlines Airport Investment Management Company as a joint venture between the Company and other investors, with an investment of RMB0.5 - 1 billion, and authorizing the President to implement the same and to submit a specific proposal to the Board of Directors for approval; approving in principle the

sale of the Xiamen CITS Building and to make allocations to a depreciation reserve in accordance with regulations; approving in principle the continued discussion of the purchase of the Ningbo Airport terminal building; and approving the formation of an investment review committee composed of Messrs. Wu Baiwang (chairman), Zhong Xiong and Cao Jianxiong and the formation of an audit committee composed of Messrs. Gong Haocheng (chairman), Hu Honggao and Cao Jianxiong.

The aforementioned resolutions on the annual results and interim results reports and the changes in the Company's management were previously announced respectively on 10 April, 11 May, 30 June, 17 July, 30 July and 5 November 2001 in the Shanghai Securities News, the South China Morning Post and the Hong Kong Economic Times.

### Connected Transactions

As EA Group holds approximately 61.64% of the issued share capital of the Company, certain transactions entered into between the Group and EA Group and its associates constitute connected transactions for the Company under the Listing Rules.

Details of the connected transactions entered into by the Group with EA Group or companies directly or indirectly held by

EA Group for the year ended 31 December 2001 are set out in note 38(b) to the financial statements prepared in accordance with IAS.

The Company's independent non-executive directors have reviewed the transactions with connected persons entered into by the Group during 2001 and confirmed that :-

- (a) the transactions have been entered into by the Group in the ordinary and usual course of its business;
- (b) the transactions have been entered into either (i) on normal commercial terms (by reference to transactions of a similar nature made by similar entities within China) or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the transactions have been entered into either (i) in accordance with the terms of the agreement governing each such transactions or (ii) (where there is no such agreement) on terms no less favourable than terms available to third parties.

In respect of each connected transaction disclosed in note 38(b) to the financial

statements prepared in accordance with IAS, the Company confirms that it has complied with the relevant requirements under Chapter 14 of the Listing Rules or a waiver from such requirements has been obtained from the Hong Kong Stock Exchange.

Details of the other related party transactions entered by the Group for the year ended 31 December 2001 are set out in note 38(a) to the financial statements prepared in accordance with IAS. These transactions do not constitute connected transactions of the Company under the Listing Rules.

### 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 tests for the Company will be made by reference to the 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; and
  - (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<sup>1</sup>/<sub>3</sub>%, 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 report relates; and
- (j) the granting of the waiver would also be conditional on the Company remaining a subsidiary of EA Group.

As at 31 December 2001, the Company's ATKs were 4,188.20 million (after adjustment in accordance with the new standards set out in Order No.88 of the Civil Aviation Administration of China titled *Measures for the Administration of China's Civil Aviation Statistics* pursuant to which new statistical standards were implemented with effect from 1 January 2001).

In relation to future deliveries of aircraft, as at 31 December 2001, the following are details of aircraft on order which are scheduled to be delivered:

Type of aircraft	Number of aircraft	Year to be delivered
Boeing 737-700	6	2002
A319	2	2002
Boeing 737-700	5	2003
A340-600	3	2003
A340-600	2	2004

As at the date of this report, the Directors are not aware of any aircraft which are subject to options exercisable during a period of not less than 12 months from 31 December 2001.

### Staff Quarters

Details of the Group's staff quarters are set out in note 34 to the financial statements prepared in accordance with IAS.

respectively, for the financial year ending 31 December 2002 will be proposed at the forthcoming AGM on 18 June 2002.

### Material Litigation

The Group was not involved in any material litigation or disputes in 2001.

On behalf of the Board

**Ye Yigan**

*Chairman of the Board*

### Auditors

PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and Shanghai Zhonghua Certified Public Accountants (registered accountants in the PRC) were the Company's international and domestic auditors in 2001, respectively. A resolution to re-appoint both PricewaterhouseCoopers and Shanghai Zhonghua Certified Public Accountants as the Company's international and domestic auditors,

Shanghai, 8 April 2002