

Report of the PRC Auditors

**To the Shareholders of
China Eastern Airlines Corporation Limited:**

As requested by China Eastern Airlines Corporation Limited (the “Company”), we have audited the balance sheets of the Company and its subsidiaries (the “Group”) as at 31 December 2001, as well as the consolidated income statements, the Company’s and the consolidated profit appropriation statement, and the Company’s and the consolidated cash flow statement for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with the “Independent Auditing Standards for PRC Certified Accountants”, based on the actual situation of the Company and included procedures we considered necessary, such as sample-checking of the Company’s accounting records.

In our opinion, the aforementioned financial statements complied with the “Accounting Standards for Business Enterprises” and “Accounting Regulations for Business Enterprises” and fairly presented in all material respects the financial position of the Company and its consolidated Group as at 31 December 2001 and the results of operation and cash flows for the year then ended, and the accounting treatment used was consistent with practice.

Shanghai Zhonghua Certified Public Accountants

Rong Zhao, C.P.A.

Li Chen, C.P.A.

Shanghai, China
8 April 2002

Income Statement & Statement of Profit Appropriation and Distribution

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2001

Unit: RMB Yuan					
Items	Note	Current year (consolidated)	Current year (parent corp.)	Previous year (consolidated)	Previous year (parent corp.)
I. Revenue from Main Operations:	30	12,839,339,288.79	10,836,053,949.83	11,821,758,147.00	10,098,738,853.18
Less: Revenue for Civil Air Infrastructure Construction Fund		427,784,224.78	364,584,964.00	368,184,348.16	317,479,480.14
Revenue from Main Operations, net		12,411,555,064.01	10,471,468,985.83	11,453,573,798.84	9,781,259,373.04
Less: Main Operating Cost	31	9,895,680,220.39	8,309,081,958.21	9,119,344,878.75	7,894,754,222.36
Business Taxes and additional		296,836,879.42	255,111,509.28	271,339,202.01	235,781,341.74
II. Profit from Main Operations		2,219,037,964.20	1,907,275,518.34	2,062,889,718.08	1,650,723,808.94
Add: Other Operating Revenue	32	541,079,876.56	526,189,646.92	357,018,221.61	376,232,914.82
Less: Operating Expenses		1,297,765,706.82	1,205,229,653.27	1,349,875,214.28	1,280,465,097.67
General & Administrative Expenses		642,712,900.35	530,656,265.97	533,842,545.83	450,555,736.89
Financial Expenses	33	699,722,003.92	641,818,197.11	748,378,024.62	707,465,092.96
III. Profit from Operations		119,917,229.67	55,761,048.91	(212,187,845.04)	(411,529,203.76)
Add: Investment Income	34	57,296,511.88	94,242,771.53	53,839,446.05	163,423,373.84
Gains or Losses from Futures		–	–	–	–
Subsidy Income		750,000.00	750,000.00	1,069,600.00	1,069,600.00
Non-operating Income	35	33,312,379.60	25,092,544.34	281,258,809.38	283,972,830.69
Less: Non-operating Expenses	36	48,259,815.66	41,597,244.21	20,748,110.65	14,474,708.02
IV. Total Profit		163,016,305.49	134,249,120.57	103,231,899.74	22,461,892.75
Less: Income Tax		4,917,182.92	70,662.50	20,775,063.28	1,289,476.17
Gains or losses of Minority Shareholders		25,179,679.26	–	62,374,925.33	–
V. Net Profit		132,919,443.31	134,178,458.07	20,081,911.13	21,172,416.58
Add: Undistributed Profit at the Beginning of the Year (Deficit Shown in Negative)		41,595,432.49	79,029,006.02	141,799,852.68	155,195,589.44
Less: Decrease of Undistributed Profit to Reduce Registered Capital		–	–	–	–
Add: Transfer from Surplus Reserve		–	–	–	–
VI. Distributable Profit		174,514,875.80	213,207,464.09	161,881,763.81	176,368,006.02
Less: Provision for Statutory Surplus Reserve		1,680,597.37	–	11,041,832.70	–
Provision for Statutory Public Welfare Fund		1,680,597.37	–	11,041,832.70	–
Provision for Staff & Workers' Welfare Fund		–	–	–	–

Income Statement & Statement of Profit Appropriation and Distribution

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2001

Unit: RMB Yuan					
Items	Note	Current year (consolidated)	Current year (parent corp.)	Previous year (consolidated)	Previous year (parent corp.)
VII. Profit Attributable to Shareholders		171,153,681.06	213,207,464.09	139,798,098.41	176,368,006.02
Less: Dividends for Preferred Shares		–	–	–	–
Provision for Discretionary Surplus Reserve		–	–	–	–
Dividends for Common Shares		97,339,000.00	97,339,000.00	97,339,000.00	97,339,000.00
Transfer of Common Dividends into Share Capital		–	–	–	–
VIII. Undistributed Profit		73,814,681.06	115,868,464.09	42,459,098.41	79,029,006.02
Supplementary Data					
1. Proceeds from Sale or Disposal of Departments or Invested Companies		–	–	–	–
2. Loss from Natural Disasters		–	–	–	–
3. Increase (or Decrease) of Total Profit Arising From Change in Accounting Policies		(7,629,073.09)	(3,570,000.00)	–	–
4. Increase (or Decrease) of Total Profit Arising from Change in Accounting Estimations		415,701,223.52	415,701,223.52	–	–
5. Loss from Debt Reorganization		–	–	–	–
6. Other Items		–	–	–	–

Balance Sheet

(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2001

Unit: RMB Yuan					
Assets	Note	Ending Balance (Consolidated)	Ending Balance (Parent Corp.)	Beginning Balance (Consolidated)	Beginning Balance (Parent Corp.)
Current Assets:					
Cash & bank	1	2,756,765,666.67	2,350,245,497.26	2,635,403,137.13	2,205,675,857.61
Short-term Investments, net		–	–	304,827,444.21	304,827,444.21
Notes Receivable		–	–	–	–
Dividends Receivable		–	–	129,500.00	129,500.00
Interests Receivable		–	–	–	–
Accounts Receivable, net	2	908,566,274.58	761,110,116.04	1,288,451,722.52	996,993,449.44
Other Receivables, net	3	493,113,117.43	630,140,049.85	601,975,450.70	711,200,101.78
Prepayments	4	102,453,391.89	96,282,270.92	265,285,993.64	273,911,952.77
Subsidies Receivable		–	–	–	–
Guarantee Deposit for Futures		–	–	–	–
Exchange Seat Fee Receivable		–	–	–	–
Inventories, net	5	2,074,690,294.37	1,980,881,119.64	2,142,040,888.52	2,021,110,995.83
Amounts to be Amortized	6	97,348,982.54	75,274,525.75	76,970,736.07	56,800,019.64
Loss of Current Assets to be Dealt With		–	–	–	–
Long-term Debenture Investment Due within One Year		–	–	–	–
Other Current Assets		–	–	–	–
Total Current Assets		6,432,937,727.48	5,893,933,579.46	7,315,084,872.79	6,570,649,321.28
Long-term Investments:					
Long-term Equity Investments	7	210,363,823.42	1,147,087,991.02	90,742,008.46	1,026,884,826.74
Long-term Debt Investments	8	501,722,616.34	501,722,616.34	545,721,596.87	545,721,596.87
Total Long-term Investments		712,086,439.76	1,648,810,607.36	636,463,605.33	1,572,606,423.61
Less: Allowance for Loss on Long-term Investments		1,758,050.62	–	1,760,468.50	–
Long-term Investments, net		710,328,389.14	1,648,810,607.36	634,703,136.83	1,572,606,423.61

Balance Sheet

(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2001

		Unit: RMB Yuan			
Assets	Note	Ending Balance (Consolidated)	Ending Balance (Parent Corp.)	Beginning Balance (Consolidated)	Beginning Balance (Parent Corp.)
Including: Consolidation Difference (in Consolidated Statements)		–	–	–	–
Equity Investment Difference		4,984,369.89	4,984,369.89	–	–
Fixed Assets					
Fixed Assets, at Cost	9	29,603,516,189.77	28,424,471,634.73	27,463,079,962.06	26,363,312,606.18
Less: Accumulated Depreciation		12,271,615,002.69	11,964,394,461.47	10,402,275,486.63	10,151,845,683.61
Net Fixed Assets		17,331,901,187.08	16,460,077,173.26	17,060,804,475.43	16,211,466,922.57
Less: Allowance for Loss on Fixed Assets		3,570,000.00	3,570,000.00	–	–
Fixed Assets, net		17,328,331,187.08	16,456,507,173.26	17,060,804,475.43	16,211,466,922.57
Engineering Supplies		–	–	–	–
Construction in Progress, net	10	1,384,276,612.14	1,311,906,436.74	849,394,110.96	811,854,481.47
Disposal of Fixed Assets		–	–	13,281,683.31	13,076,548.93
Loss of Fixed Assets to be Dealt With		–	–	–	–
Total Fixed Assets		18,712,607,799.22	17,768,413,610.00	17,923,480,269.70	17,036,397,952.97
Intangible Assets & Other Assets					
Intangible Assets, net	11	1,268,854,806.89	773,999,790.69	878,566,657.82	364,972,706.36
Long-term Amounts to be Amortized	12	230,497,341.12	207,562,292.25	224,463,205.83	197,432,916.06
Other Long-term Assets		–	–	–	–
Total Intangible Assets & Other Assets		1,499,352,148.01	981,562,082.94	1,103,029,863.65	562,405,622.42
Deferred Taxes:					
Deferred Tax Debits		–	–	–	–
Total Assets		27,355,226,063.85	26,292,719,879.76	26,976,298,142.97	25,742,059,320.28

Balance Sheet

(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2001

		Unit: RMB Yuan			
Liabilities & Shareholders' Equity	Note	Ending Balance (Consolidated)	Ending Balance (Parent Corp.)	Beginning Balance (Consolidated)	Beginning Balance (Parent Corp.)
Current Liabilities:					
Short-term Loans	13	1,282,641,751.70	982,641,751.70	600,000,000.00	200,000,000.00
Notes Payable		–	–	–	–
Accounts Payable	14	251,391,559.30	270,141,404.95	253,490,244.13	273,011,252.40
Advances from Customers		57,525,967.88	51,400,847.57	65,219,354.80	57,696,764.69
International Sales in Advance of Carriage	15	538,731,989.20	507,063,032.62	607,681,771.04	555,150,780.92
Domestic Sales in Advance of Carriage	16	119,631,651.17	112,350,411.42	103,112,383.12	91,577,320.26
Payables to Consignor		–	–	–	–
Payroll Payable		28,208,284.28	28,208,284.28	36,288,022.42	35,868,382.62
Welfare Payable		32,287,637.67	25,656,263.31	11,201,157.97	4,390,743.55
Dividends Payable	17	97,339,000.00	97,339,000.00	97,339,000.00	97,339,000.00
Taxes Payable	18	157,587,611.44	144,921,464.25	113,518,637.70	118,635,863.62
Civil Air Infrastructure Construction Fund Unpaid	19	242,681,222.73	188,365,407.94	175,162,654.73	83,996,948.43
Other outstanding payment (Statutory)		2,201,439.05	1,931,051.74	1,619,444.80	1,521,057.86
Other Payables	20	683,820,457.33	604,817,504.11	564,559,146.57	388,364,044.72
Accrued Expenses	21	1,866,512,662.11	1,615,237,891.63	1,787,223,762.92	1,544,617,826.58
Accrued Liabilities	22	4,546,797.00	4,546,797.00	–	–
Portion of Long-term Liabilities due within One Year	23	2,974,416,833.25	2,974,416,833.25	1,751,328,246.77	1,751,328,246.77
Other Current Liabilities		–	–	–	–
Total Current Liabilities		8,339,524,864.11	7,609,037,945.77	6,167,743,826.97	5,203,498,232.42
Long-term Liabilities:					
Long-term Loans	24	3,205,690,568.88	3,205,690,568.88	2,100,000,000.00	2,100,000,000.00
Debentures Payable		–	–	–	–
Long-term Accounts Payable	25	9,231,810,379.06	9,231,810,379.06	12,177,275,143.41	12,177,275,143.41
Payments for Special Purpose		–	–	–	–
Other Long-term Liabilities		–	–	(409,827,430.79)	(339,398,633.14)
Total Long-term Liabilities		12,437,500,947.94	12,437,500,947.94	13,867,447,712.62	13,937,876,510.27
Deferred Taxes:					
Deferred Tax Credits		731,862.03	550,147.50	2,002,085.84	2,002,085.84
Total Liabilities		20,777,757,674.08	20,047,089,041.21	20,037,193,625.43	19,143,376,828.53
Minority Interests					
Shareholders' Equity:					
Capital Stock	26	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00
Capital Reserve	27	1,262,812,374.46	1,262,812,374.46	1,447,954,188.23	1,447,954,188.23
Surplus Reserve	28	37,796,442.08	–	239,184,544.84	204,749,297.50
Including: Public Welfare Fund	29	18,898,221.04	–	98,617,342.62	81,399,718.95
Undistributed Profit		73,814,681.06	115,868,464.09	42,459,098.41	79,029,006.02
Foreign Currency Translation Difference		–	–	–	–
Total Shareholders' Equity		6,241,373,497.60	6,245,630,838.55	6,596,547,831.48	6,598,682,491.75
Total Liabilities & Shareholders' Equity		27,355,226,063.85	26,292,719,879.76	26,976,298,142.97	25,742,059,320.28

Cash Flow Statement

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2001

Items	Unit: RMB Yuan	
	Amount (consolidated)	Amount (parent)
I. Cash Flows from Operating Activities:		
Cash received from sales of goods or rendering of services	14,424,522,434.48	11,907,579,856.72
Refunds of taxes	1,843,762.65	1,843,762.65
Other cash received relating to operating activities	69,443,951.37	25,353,861.02
Sub-total of cash inflows	14,495,810,148.50	11,934,777,480.39
Cash paid for goods and services	9,439,787,730.87	7,666,068,514.43
Cash paid to and on behalf of employees	790,653,071.12	652,216,747.44
Payments of all types of taxes	727,277,997.49	567,067,291.88
Cash paid relating to other operating activities	343,179,548.40	142,195,229.91
Sub-total of cash outflows	11,300,898,347.88	9,027,547,783.66
Net cash flows from operating activities	3,194,911,800.62	2,907,229,696.73
II. Cash Flows from Investing Activities:		
Cash received from return of investments	400,996,564.24	386,094,146.36
Cash received from distribution of dividends or profits	8,699,686.67	8,017,494.87
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets	76,431,337.55	73,170,840.63
Cash received relating to other investing activities	–	–
Sub-total of cash inflows	486,127,588.46	467,282,481.86
Cash paid to acquire fixed assets, intangible assets, and other long-term assets	2,495,037,221.33	2,288,938,943.18
Cash paid to acquire investments	106,514,000.00	106,364,000.00
Cash paid relating to other investing activities	(24,007,545.82)	(24,007,545.82)
Sub-total of cash outflows	2,577,543,675.51	2,371,295,397.36
Net cash flows from investing activities	(2,091,416,087.05)	(1,904,012,915.50)
III. Cash Flows from Financing Activities:		
Cash received from investments by others including: Cash received by subsidiaries from investments by minority shareholders	–	–
Cash received from borrowings	3,484,325,833.74	3,184,325,833.74
Cash received relating to other financing activities	54,820,524.24	54,820,524.24
Sub-total of cash inflows	3,539,146,357.98	3,239,146,357.98
Cash repayments of amounts borrowed	1,629,150,107.57	1,229,150,107.57
Cash paid for distribution of dividends or profits and for interest expenses including: Cash paid for distribution of dividends or profits to minority shareholders by subsidiaries	947,336,168.60	924,867,157.74
Cash paid relating to other financing activities	1,802,875,711.63	1,802,875,711.63
Sub-total of cash outflows	4,379,361,987.80	3,956,892,976.94
Net cash flows from financing activities	(840,215,629.82)	(717,746,618.96)
IV. Effect of Foreign Exchange Rate Changes on Cash	(144,536,662.25)	(139,165,167.18)
V. Net Increase in Cash and Cash Equivalents	118,743,421.50	146,304,995.09

Cash Flow Statement

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2001

Supplementary Information	Unit: RMB Yuan	
	Amount (consolidated)	Amount (parent)
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net Profit	132,919,443.31	134,178,458.07
Add: Gains or losses of minority shareholders	25,179,679.26	–
Provision for impairment losses of assets	40,730,826.58	36,011,906.08
Depreciation of fixed assets	1,591,203,916.54	1,528,811,849.61
Amortisation of intangible assets	29,327,412.89	18,090,069.23
Amortisation of long-term prepaid expenses	70,619,849.71	62,859,038.76
Decrease in prepaid expenses (or deduct: increase)	(20,378,246.47)	(18,474,506.11)
Increase in accrued expenses (or deduct: decrease)	68,850,690.36	68,254,396.45
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	(11,692,074.11)	(17,566,643.94)
Losses on scrapping of fixed assets	7,639,260.33	5,370,214.80
Financial expenses	731,106,100.18	702,737,339.25
Losses arising from investments (or deduct: gains)	(57,296,511.88)	(94,242,771.53)
Deferred tax credit (or deduct: debit)	–	–
Decrease in inventories (or deduct: increase)	147,200,888.57	122,389,239.09
Decrease in operating receivables (or deduct: increase)	748,504,891.05	220,568,263.56
Increase in operating payables (or deduct: decrease)	(309,004,325.70)	138,242,843.41
Others	–	–
Net cash flows from operating activities	3,194,911,800.62	2,907,229,696.73
2. Investing and Financing Activities that do not Involve Cash Receipts and Payments		
Conversion of debt into capital	–	–
Reclassify convertible bonds to be expired within one year as current liability	–	–
Fixed assets financed by finance leases	–	–
3. Net Increase in Cash and Cash Equivalents:		
Cash at the end of the period	2,627,728,375.49	2,240,547,698.76
Less: cash at the beginning of the period	2,508,984,953.99	2,094,242,703.67
Plus: Cash equivalents at the end of the period	–	–
Less: Cash equivalents at the beginning of the period	–	–
Net increase in cash and cash equivalents	118,743,421.50	146,304,995.09

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

I. Company Information

China Eastern Airlines Corporation Limited (“the Company”) was established in April 1995 under the sole sponsorship of Eastern Air Group Company. In February 1997, with the approval of State Reformation Commission by its Circular No. (1996) 180 and State Council Securities Commission by its Circular No. (1997) 4, the Company issued 1,566,950,000 H shares, which are listed on the Stock Exchange of Hong Kong and New York Stock Exchange. In May 1997, with the approval of Civil Aviation Administration of China and China Securities Supervisory Commission, the Company issued an additional of 300,000,000 A shares to the public. The registered capital of the Company is RMB 4,866,950,000.

The Company is primarily engaged in the air transportation of passengers, cargo, mails and luggage over domestic and approved overseas air routes, general aviation business, maintenance and repair of aircraft, manufacturing and maintenance of aviation equipment, agency of airlines both at home and abroad and other business related to aviation transportation.

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements

1. Accounting Policies Applied

The company and its subsidiaries follow the <Accounting Standards for Business Enterprises> and <Accounting Regulations for Business Enterprises> and its supplementary regulations.

2. Accounting Period

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

3. Base Currency

The Company adopts Renminbi (“RMB”) as its base currency.

4. Principle and Basis of Accounting

The Company adopts the accrual basis as basis of accounting. All items are recorded at historical cost except otherwise provided.

5. Translation of Foreign Currencies

Transactions in foreign currencies are translated into RMB at the middle exchange rate prevailing at the beginning of the month. Monetary assets and liabilities in foreign currencies are translated into RMB at the middle exchange rate prevailing at the end of each month. Exchange differences concerning acquisition of fixed assets are capitalized. Exchange differences during organization period are included in <long-term expenses to be amortized>, which will be accounted as current profit and loss of the month during which formal operation starts. Exchange differences in normal operations are included in the <Financial expenses- exchange gains and losses> of the current period.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

6. Definition of Cash Equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Basis of Consolidated Statements

(1) Determination of consolidation scope

Wherever the equity investment made by the Company to the outside company is over 50% (excluding 50%) of the investee company's capital, or less than 50% but the Company has substantial control over the invested company, the invested company should be included in the consolidation. However, for those invested entities whose total assets, operating revenue and net profit are insignificant and are in compliance with regulations of CKZ (96) No.2 <Answer to the Question about Consolidation Scope>, they are not included in consolidation.

(2) Consolidation method

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

(3) The accounting policies adopted by the Company and its subsidiaries are in consistency.

8. Current Investment

(1) The initial cost of a current investment is the total price paid on acquisition, including incidental expenses such as taxes and handling charges, after deduction of cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds which has been accrued. Cash dividends or interests on current investments, other than those recorded as receivable items, should be offset against the carrying amount of investments upon receipt. On disposal of a current investment, the difference between the carrying amount and the sale proceeds should be recognized as an investment gain or loss of the current period.

(2) Provision for impairment of current investment

The provision for impairment of current investment is made at the excess of carrying amount over the market value on an individual item basis.

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

9. Provision for Bad Debts

(1) Determination of bad debts

- a. When the debtor is bankrupt or dead, the accounts receivable that are unable to be recovered even after the liquidation of the debtor's bankrupt estate or legacy.
- b. The accounts receivable with an aging of over 3 years that are proved to be definitely uncollectable because of the debtor's default in making repayment.

(2) Accounting treatment of bad debts

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

(3) Determination, provisioning method and percentage of provision for bad debts

The loss of bad debts is accounted for with deduction method. If there is enough evidence proving the uncollectibility of some accounts receivable, then they are analyzed on an individual item basis to determine the provisioning percentage. The aging method is not applied on these accounts receivable. The provision for bad debts for the remaining balance of accounts receivable after deducting the aforesaid accounts receivable is calculated with aging method.

The aging and the corresponding provisioning percentage are listed as follows:

Aging	Provisioning Percentage
Within 1 Year	3‰
1-2 years	5%
2-3 years	10%
3-4 years	15%
4-5 years	20%
Above 5 Years	40%

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

10. Inventory

(1) Classification of inventory

The Company's inventory mainly comprises 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 after acquisition. For the high-price rotables that can still be used after repair, they will be recorded at 40% of the market price.

(3) Allowance for obsolescence of inventory

At the middle or end of the year, the Company provides allowance against aircraft consumables on the basis of the average useful life of corresponding airplanes and the average discount rate in previous disposals.

11. Long-term Investment

(1) Valuation and income recognition of long-term equity investment

Long-term equity investment consists of stock investment and other equity investment. It is recorded at the initial acquisition cost actually paid. The equity method is applied wherever the Company holds 20% or more voting capital of the investee entities, or holds less than 20% of the voting capital but has significant influence over the invested entities. The cost method is applied wherever the Company's investment is less than 20% of the voting capital of the invested entities, or although the investment is 20% or more the Company does not have significant influence thereon.

(2) Long-term debt investment

Long-term debt investment refers to bond investment and lease. It is recorded at the total price paid on acquisition, after deducting incidental expenses such as taxes, handling charges and unpaid interest on bonds which has been accrued. Investment gains are recognized on the accrual basis.

(3) Equity investment difference

The difference between the investment cost as explained in paragraph (1) and the investor's share of owner's equity of the invested enterprise is recorded in <Equity Investment Difference> and usually amortized over a period of 10 years.

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

11. Long-term Investment (Cont'd)

(4) Provision for impairment of long-term investment

If the recoverable amount of a long-term investment is lower than its carrying amount as a result of a continuing decline in market value or deterioration in operating conditions of the invested enterprise, and the devaluation is unlikely to be recovered in the foreseeable future, the excess of the carrying amount of the investment over the recoverable amount should first offset against the provision of capital surplus of that investment. The remaining difference shall be recorded as investment loss in the current period. When the value of a long-term investment for which a loss has been previously recognized recovers, the recovery should be recognized to the extent of the amount of the investment loss previously recognized.

12. Fixed Assets and Depreciation

(1) Determination of fixed assets

Fixed assets refer to: Buildings, machines, vehicles, and other equipment or tools that are related to operation or production whose useful lives are more than 1 year; Articles that are not related to operation and production but the unit values are more than RMB 2,000 and useful lives are more than 2 years.

(2) Valuation of fixed assets

Fixed assets are accounted for at actual acquisition price, including incidental expenses such as package expenses, transport costs, installation cost and relevant taxes; Fixed assets that are self-constructed are recorded at all the cost incurred before completion and readiness for use; Fixed assets that are invested by investors are recorded at the value recognized by all the investors.

(3) Depreciation of fixed assets

Depreciation on the fixed assets is provided on a straight-line basis after deducting the estimated residual value according to the following useful lives:

Categories	Useful Lives	Residual Value Rate
Aircrafts and engines attached	20 years	5%
Standby engines	20 years	0%
Buildings	15~35 years	3%
Vehicles and electronic devices	5~6 years	3%
Other Equipment	5~20 years	3%

Notes to the Financial Statements

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II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

12. Fixed Assets and Depreciation (Cont'd)

(4) Provision for impairment of fixed assets

If the recoverable amount of a fixed asset is lower than its carrying amount as a result of continuing decline in market value, technology obsolescence, damage or idleness, the Company shall make provision for impairment of fixed assets at the end of the period at the excess of the carrying amount over recoverable amount on an individual item basis.

13. Construction-in-progress

(1) Construction-in-progress is accounted for at actual acquisition cost. The interest of loan incurred during the course of construction for the financing of the project should be included in the cost of construction-in-progress. The interest of loan incurred after the project having been put into operation shall be accounted for as current profit or loss. Upon completion and readiness for operation, the cost of construction-in-progress is to be transferred to the account of fixed assets.

(2) Provision for impairment of construction-in-progress: The company shall give a complete review of the constructions-in-progress at the end of the period. If the construction has been interrupted for a long period and is not expected to be resumed within 3 years; or if the project is outdated whether in performance or in technology and the economic benefits brought to the Company is of great uncertainty; or if there is enough evidence indicating that the impairment of construction-in-progress has occurred, the Company shall make provision for impairment of construction-in-progress at the excess of the carrying amount of the construction-in-progress over its recoverable on an individual item basis.

14. Intangible Assets

(1) Valuation and amortization

Intangible assets are accounted for at actual acquisition cost. The recording amount of an intangible asset contributed by an investor should be determined based on the value agreed by all investors. The cost of an intangible asset is amortized evenly over the shorter of the beneficial period stipulated in the contract and the effective period stipulated by law starting from the month in which it is obtained. Lacking such stipulations, intangible assets should be amortized evenly over the expected beneficial period.

(2) Provision for impairment of intangible assets

The company shall review each intangible asset at the end of the period and evaluate its ability to generate economic benefits. The Company shall recognize the excess of carrying amount over the recoverable amount as provision for impairment on an individual item basis.

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

15. Amortization of Long-term Expenses to be Amortized

- (1) Organization expenses are included in <Long-term Expenses to be Amortized> first and then accounted for as current profit or loss of the month during which formal operation is started.
- (2) Long-term expenses to be amortized are accounted for at the actual costs and amortized over the estimated beneficial period.

16. Overhaul Expenses of Aircraft and Engines

Pursuant to the related regulations of the Finance Department of Civil Aviation Administration of China ("CAAC"), the Company should accrue overhaul expenses for aircraft and engine at 2%~4% of the original cost in consideration of the overhaul cycle and expected overhaul expenses of various types of aircraft.

17. Borrowing Costs

Interest expenses incurred for the purpose of acquiring a fixed asset should be included in the cost of the relevant fixed asset before the asset has reached its expected usable condition. The interest expenses incurred after the fixed asset has reached its usable condition are accounted for as finance expenses. Interests incurred during operation are directly accounted for as financial expenses.

18. Income Recognition

- (1) The value of sold but unused tickets is included in the current liabilities, which is accounted for in <Domestic Sales in Advance of Carriage> and <International Sales in Advance of Carriage>. The value of tickets sold by other carriers but executed by the Company or tickets sold by the Company but executed by other carriers are cleared through Accounting Center of China Aviation ("ACCA"). The Company's income from provision of transportation service of passengers, cargo and mails is recognized upon delivery of the service with the uplifted coupons as evidence. The commission income earned from other carriers in respect of sales made by the Company is recognized upon billing by other carriers.
- (2) Ground service income is recognized when rendering services.
- (3) Revenue arising from the use by others of the Company's assets such as interest revenue and royalty is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of the revenue can be measured reliably. The interest revenue is measured based on the length of time for which the Company's cash is used by others and the applicable interest rate and royalty is measured according to the period and method of charging as stipulated in the relevant contract or agreement.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

19. Income Tax

The income tax is accounted for with tax payable method.

20. Changes in Major Accounting Policies and Accounting Estimates, and Corrections of Significant Accounting Errors:

(1) Contents and basis of changes in accounting policies

According to the requirements of CK[2001] No.25 <Notice about the Distribution of "Accounting Regulations for Business Enterprises"> issued by the Ministry of Finance, the Company started to follow <Accounting Regulations for Business Enterprises> on January 1, 2001 and accounting policies are changed as follows:

- (i) No provision for impairment of fixed assets was made formerly. Now the Company makes provision for impairment of fixed assets at the end of the period at the excess of carrying amount over the recoverable amount on an individual item basis.
- (ii) No provision for impairment of construction-in-progress was made formerly. Now the Company makes provision for construction-in-progress at the end of the period at the excess of carrying amount over the recoverable amount on an individual item basis.
- (iii) No provision for impairment of intangible assets was made formerly. Now the Company makes provision for intangible assets at the end of the period at the excess of carrying amount over the recoverable amount on an individual item basis.
- (iv) No provision for impairment of entrusted loans was made formerly. Now the Company makes provision for impairment of entrusted loans at the end of the period at the excess of carrying amount over the recoverable amount on an individual item basis.
- (v) Organization expenses were originally evenly amortized over 5 years from the month of formal operation. Now organization expenses are accounted for as current expenses of the month during which formal operation starts.

II. Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements (Cont'd)

20. Changes in Major Accounting Policies and Accounting Estimates, and Corrections of Significant Accounting Errors (Cont'd):

(2) Amount of influence due to changes in accounting policies:

Items	Influence before 2000	Influence in 2000	Influence in 2001	Cumulative Influence
Provision for impairment of fixed assets	–	–	3,570,000.00	3,570,000.00
Provision for impairment of construction-in-progress	10,000,000.00	–	–	10,000,000.00
Organizing expenses	–	–	4,059,073.09	4,059,073.09

(3) Contents and basis of changes in accounting estimates

The Board of Directors made a resolution on January 16, 2002 deciding that from July 1, 2001 the estimated useful lives of aircraft and engines were to be adjusted from 10-15 years to 20 years and the residual value rate was to be adjusted from 3% to 5%, due to the fact that the actual use and maintenance of the aircraft and engines was able to guarantee the continual and safe flight and in consideration of the actual situation of the same types of aircraft and engines that have been put into use abroad. The estimated useful lives of standby engines are the same with those of aircraft.

(4) Amount of effect due to change in accounting estimates

The profit of 2001 is increased by RMB 415,700,000 due to changes in accounting estimates mentioned above.

III. Taxation Items

1. The major taxation items and rates of the Company are as follows:

Categories of Taxes	Rate	Basis of Tax
Income Tax	15% (note)	Taxable income
Business Tax	3%	Income from transportation, ground service & commissions
Business Tax	5%	Income from repairs & other services
Value-added Tax	17%	Income from material transfer

Note: The original income tax rate of the Company was 33%. In July 2001 the Company moved the registered address to Pudong New Area. The Company has enjoyed the preferential policy of Pudong New Area ever since July 1, 2001 and the applicable income tax rate is cut to 15%.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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III. Taxation Items (Cont'd)

2. Civil Aviation Infrastructure Levies

The Civil Aviation Infrastructure Levies is charged at a certain percentage of traffic revenue. Pursuant to the related regulations (its ref. No. CZZ 1999-11) jointly issued by Ministry of Finance and State Development & Planning Commission, the levy rate applied on domestic traffic revenue is 5% while that on international traffic revenue is 2%.

IV. Stock-held Subsidiary Companies

Name of Investee Company	Registered Capital	Shareholding Percent	Accounting Method	Consolidation	Scope of Business
China Eastern Airlines Jiangsu Co., Ltd.	USD 47,000,000	55%	Equity Method	Yes	Air transportation of passengers, cargo, mails and luggage over domestic air routes and approved overseas routes
China Cargo Airlines Co., Ltd.	RMB 500,000,000	70%	Equity Method	Yes	Air transportation of cargo & mails, air catering, sales of tourist goods, hotel, catering and entertainment
Shanghai Eastern Flight Training Co., Ltd.	RMB 358,000,000	95%	Equity Method	Yes	Training for flying crew and other related personnel
Eastern Airlines Industrial Co., Ltd.	RMB 49,500,000	80%	Equity Method	No	Sales of food, knitwear & hardware
Qi Lu Eastern Airlines Catering Co., Ltd.	RMB 10,500,000	65%	Equity Method	No	Production and sales of food, catering on the planes
China Eastern Airlines Jiangsu Catering Co.	RMB 500,000	55%	Cost Method	No	Sales of Aquatic products, household by-products and native products
Jiangnan Tourist (HK) Co.	RMB 641,100	55%	Cost Method	No	Traveling service
Eastern Airlines Jiangsu Advertisement Co., Ltd.	RMB 300,000	55%	Cost Method	No	Design and making of advertisement in domestic broadcast, newspapers and magazines; design and making of presswork, street nameplate, gift packing; advertisement agency

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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IV. Stock-held Subsidiary Companies (Cont'd)

For the several companies that are not included in consolidation scope, either because the Company does not have significant influence thereon, or the total assets, operating income and net profit of the companies are all less than 10% of those of the Company, or because they are still under preparation stage and have not started formal operation.

V. Explanations to Main Items of Financial Statements (Unit: RMB)

1. Monetary Fund

	Ending Balance	Beginning Balance
Cash	1,494,628.00	1,847,999.50
Bank Deposit	1,289,124,906.90	1,054,477,252.37
Other Monetary Fund	1,466,146,131.77	1,579,077,885.26
Total	2,756,765,666.67	2,635,403,137.13

Included among Other Monetary Fund, there are restricted overseas deposits with a total amount of RMB 1,251,779,318.96, which is used to pay the aircraft lease charges. The balance of special deposit is RMB 129,037,291.18, which is the deposit for the purchase of aircraft or aircraft operating lease.

The monetary fund in foreign currencies is equivalent to RMB 1,857,401,525.05 at the medium exchange rate prevailing at the end of the period.

2. Accounts Receivable

Aging	Ending Balance			Beginning Balance		
	Amount	Percentage (%)	Provision for Bad Debts	Amount	Percentage (%)	Provision for Bad Debts
Within 1 Year	853,963,033.23	87.82	2,798,747.52	1,257,174,790.91	95.07	3,843,895.48
In the Second Year	63,946,405.26	6.58	27,163,893.04	24,982,691.72	1.89	7,633,167.10
In the Third Year	17,673,072.74	1.82	8,169,768.23	6,022,809.41	0.45	2,221,090.79
In the Fourth Year	6,603,597.85	0.68	4,453,590.50	20,370,617.91	1.54	7,631,953.65
In the Fifth Year	16,613,980.45	1.70	7,917,461.75	9,909,234.66	0.75	8,963,694.29
Above 5 Years	13,655,402.49	1.40	13,385,756.40	3,922,590.50	0.30	3,637,211.28
Total	972,455,492.02	100.00	63,889,217.44	1,322,382,735.11	100.00	33,931,012.59

The top 5 companies with largest amount due to the Company owe a total amount of RMB 294,690,204.56 to the Company, which is 30.30% of the ending balance.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

2. Accounts Receivable (Cont'd)

Among the debtors there is no company that holds over 5% of the Company's share capital.

Special provisions for bad debts are as follows:

Company	Amount	Aging	Percentage (%)	Reason
Shanghai East Airlines International Tour Transportation Co., Ltd.	14,858,328.63	1-2 years	50%	Doubtful collection of ticket proceeds
Jinshan Sino-foreign Enterprises Service Co.	19,195,743.00	1-2 years	50%	Doubtful collection of ticket proceeds
Shanghai Jinqiao Aviation Consultation Co., Ltd.	15,033,514.50	1-2 years	50%	Doubtful collection of ticket proceeds
Kunshan Xunjie Travel Service Co.	2,986,609.50	2-3 years	50%	Doubtful collection of ticket proceeds
Shanghai Aohang Aviation Service Co., Ltd.	5,055,776.32	2-3 years	50%	Doubtful collection of ticket proceeds
Eastern Airlines Zhoushan Travel Industrial Development Co.	4,735,148.33	2-3 years	50%	Doubtful collection of ticket proceeds
Nanfang Express Mail Co., Ltd.	2,226,583.00	Above 5 years	100%	Shut up
Shenzhen Kanghui Co., Ltd.	2,327,603.83	4-5 years	50%	Litigation
China Civil Aviation Weifang Station	5,127,073.70	5-6 years	100%	Litigation
Shandong Jinan International Aviation Service Co., Ltd.	3,107,607.43	Above 5 years	100%	Insolvency
Others	19,121,791.56	2-3 years	50%-100%	Doubtful collection of ticket proceeds
Total	93,775,779.80			

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

3. Other Receivable

Aging	Ending Balance			Beginning Balance		
	Amount	Percentage (%)	Provision for Bad Debts	Amount	Percentage (%)	Provision for Bad Debts
Within 1 Year	227,674,438.29	37.61	4,066,893.12	396,048,152.98	56.98	13,618,511.06
In the Second Year	148,117,160.80	24.48	31,254,739.71	165,331,228.07	23.79	16,598,824.31
In the Third Year	153,209,068.71	25.32	22,821,260.14	21,975,860.48	3.16	14,563,075.21
In the Fourth Year	21,110,483.08	3.49	14,512,837.07	70,521,486.04	10.15	19,800,335.65
In the Fifth Year	16,009,851.67	2.65	10,401,970.33	9,980,433.00	1.44	5,596,086.60
Above 5 Years	39,024,213.98	6.45	28,974,398.73	31,127,609.82	4.48	22,832,486.86
Total	605,145,216.53	100.00	112,032,099.10	694,984,770.39	100.00	93,009,319.69

Among the above, the top 5 companies with largest amount due to the Company are as follows:

Company	Due Amount	Transaction Period	Reason
CFM International Incorporated	201,130,843.22	2000-2001	Discount for purchasing flight equipment
Shanghai Eastern Air Catering Co., Ltd.	30,000,000.00	1999	Payments of construction projects
People's Insurance Company of China	23,650,770.93	1998-1999	Compensation
Nanjing Artwork Auction Co.	22,563,614.19	1998-2000	Repayment of loans due to guarantee
The Air CEA (Cayman) Co., Ltd.	17,718,052.04	2001	Reimbursement of aircraft lease
Total	295,063,280.38		

The top 5 companies owe a total amount of RMB 295,063,280.38 to the Company, which is 48.76% of the ending balance.

Among the debtors, Eastern Air Group, which holds over 5% of the Company's share capital has an amount of RMB 638,484.55 due to the Company.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

3. Other Receivable (Cont'd)

Special provisions for bad debts are as follows:

Company	Amount	Aging	Percentage (%)	Reason
Huayang Lease Co.	9,531,837.50	3-5 years	100%	Liquidation
Yixing Carbon Factory	4,500,000.00	Above 5 years	100%	Bankrupt
Nanjing Artwork Auction Co.	22,563,614.19	1-4 years	100%	Litigation
Eastern Airlines Industrial Co., Ltd.	6,237,037.58	Above 5 years	100%	Dispute
Finance Dept., CAAC	6,782,783.39	Above 5 years	100%	Dispute
Jincheng Group	10,000,000.00	1-2 years	100%	Joint guarantee obligation
Others	22,759,725.43		100%	Dispute, joint guarantee obligations, etc.
Total	82,374,998.09			

4. Advances to Suppliers

Aging	Ending Balance		Beginning Balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 Year	102,453,391.89	100.00	205,989,032.17	77.65
In the Second year	—	—	47,092,542.80	17.75
In the Third Year	—	—	4,408,998.02	1.66
In the Forth Year	—	—	7,133,461.97	2.69
In the Fifth Year	—	—	661,958.68	0.25
Total	102,453,391.89	100.00	265,285,993.64	100.00

There is no amount due from parties who hold more than 5% of the Company's shares.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)

Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

5. Inventory

Item	Ending Balance		Beginning Balance	
	Amount	Allowance for Obsolescence	Amount	Allowance for Obsolescence
Aircraft Consumables	869,004,306.66	261,438,788.72	856,135,162.47	258,905,175.94
High-price Rotables	1,426,593,716.61	–	1,476,614,544.51	–
Common Appliance	18,311,071.70	–	19,905,627.04	–
Low-price Consumables	1,190,791.15	–	158,324.19	–
Sub-contracted Equipment	–	–	240,479.46	–
Others	21,029,196.97	–	47,891,926.79	–
Total	2,336,129,083.09	261,438,788.72	2,400,946,064.46	258,905,175.94

6. Expenses to be Amortized

Category	Beginning Balance	Increase, Current	Amortization, Current	Ending Balance
Aircraft operating Lease obligations	71,756,357.19	407,429,456.55	397,477,626.06	81,708,187.68
Tickets printing expenses	1,403,687.56	1,474,161.76	2,508,643.10	369,206.22
Others	3,810,691.32	95,149,669.24	83,688,771.92	15,271,588.64
Total	76,970,736.07	504,053,287.55	483,675,041.08	97,348,982.54

7. Long-term Equity Investment

Item	Beginning Balance				Ending Balance	
	Amount	Provision for Impairment	Increase, Current	Decrease, Current	Amount	Provision for Impairment
Securities Investment	360,000.00	–	–	–	360,000.00	–
Other equity investment	90,382,008.46	1,760,468.50	123,352,967.65	3,731,152.69	210,003,823.42	1,758,050.62
Total	90,742,008.46	1,760,468.50	123,352,967.65	3,731,152.69	210,363,823.42	1,758,050.62

(1) Securities investment

Investee Company	Type of Shares	Quantity of Shares	% of the Registered Capital of the Investee Company	Amount
Huning Expressway Co., Ltd.	Legal person shares	200,000	–	360,000.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

7. Long-term Equity Investment (Cont'd)

(2) Other equity investment

(i) Investments to subsidiary

Investee Company	Investment Period	Amount	Ending Balance	% of Registered Capital	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current	Cash Dividend, Current	Provision for Impairment on Investment
Eastern Airlines Industrial Co., Ltd.	1998/3-2028/3	39,600,000.00	39,600,000.00	80.00%	-	-	-	-
Qi Lu Eastern Air Catering Co., Ltd.	1993/5-2008/5	8,688,333.68	11,793,559.97	65.00%	3,105,226.29	863,346.57	147,680.65	-
Jiangnan Tourist (Hong Kong) Co.	1998/3-	641,100.00	641,100.00	55.00%	-	-	-	-
China Eastern Air Jiangsu Catering Co.	1994/4-1997/4	500,000.00	498,000.00	55.00%	(2,000.00)	-	-	498,000.00
Eastern Airlines Jiangsu Advertisement Co., Ltd.	2000/11-	893,354.87	893,354.87	55.00%	-	-	-	-
Total		50,322,788.55	53,426,014.84		3,103,226.29	863,346.57	147,680.65	498,000.00

Details of provisions for impairment of long-term investment:

Investee Company	Beginning Balance	Ending Balance	Reason for Provisioning
China Eastern Air Jiangsu Catering Co.	498,000.00	498,000.00	Shut up, no recoverable assets

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

7. Long-term Equity Investment (Cont'd)

(2) Other equity investment (Cont'd)

(ii) Investment to associated company

Investee Company	Investment Period	Amount	Ending Balance	% of Registered Capital	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current	Cash Dividend, Current	Provision for Impairment on Investment
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	1995/12-2017/12	6,978,881.09	21,199,701.81	40.00%	14,220,820.72	3,855,067.59	2,600,000.00	–
Yantai Eastern Air Catering Co., Ltd.	1997/3-2012/3	3,040,000.00	3,996,396.01	40.00%	956,396.01	276,040.33	136,000.00	–
Eastern China Kaiya System Integration Co., Ltd.	1999/5-	740,000.00	4,321,508.84	37.00%	3,581,508.84	2,033,820.09	740,000.00	–
Shanghai Hongpu Civil Airport Communication Co., Ltd.	2000/6-	7,500,000.00	7,425,458.23	30.00%	(74,541.77)	(105,054.16)	–	–
Jiangsu Eastern Airlines Trading Co., Ltd.	1996/7-2011/7	1,100,000.00	1,100,000.00	30.25%	–	–	–	1,100,000.00
Eastern Airlines Jiangsu Industrial Co., Ltd.	1996/6-2015/6	228,468.50	160,050.62	38.50%	(68,417.88)	(2,417.88)	–	160,050.62
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	1995/11-2025/11	1,050,000.00	1,050,000.00	38.50%	–	–	–	–
Eastern Union Freight (HK) Co., Ltd.	1999/1-	1,313,271.00	2,004,354.43	41.00%	691,083.43	691,083.43	–	–
Eastern Air Group Finance Co., Ltd.	2001/1-	106,364,000.00	110,080,338.64	25.00%	3,162,519.76	3,162,519.76	–	–
Total		128,314,620.59	151,337,808.58		22,469,369.11	9,911,059.16	3,476,000.00	1,260,050.62

Details of provision for impairment of long-term investment:

Investee Company	Beginning Balance	Ending Balance	Reason for Provisioning
Jiangsu Eastern Airlines Trading Co., Ltd.	1,100,000.00	1,100,000.00	Shut up, no recoverable assets
Eastern Airlines Jiangsu Industrial Co., Ltd.	162,468.50	160,050.62	Liquidation, no recoverable assets

(iii) Other equity investment

Investee Company	Investment Period	Amount	Ending Balance	% of Registered Capital	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current	Cash Dividend, Current	Provision for Impairment on Investment
Hengtai Insurance Brokerage Co., Ltd.	2000/12-	1,000,000.00	1,000,000.00	3.33%	–	–	–	–
Jiangsu SuYing Labor Service Co., Ltd.	2001/2-	150,000.00	150,000.00	0.495%	150,000.00	150,000.00	–	–
CAAC Information Network Co., Ltd.	2001/6-	4,090,000.00	4,090,000.00	0.46%	4,090,000.00	4,090,000.00	–	–
Total		5,240,000.00	5,240,000.00		4,240,000.00	4,240,000.00		

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

7. Long-term Equity Investment (Cont'd)

- (2) Other equity investment (Cont'd)
(iv) Equity investment difference

Company	Beginning Balance	Amortization Period	Period Current	Amortization Value	Remaining Reasons
Eastern Air Group Finance Co., Ltd.	5,538,188.77	10 years	553,818.88	4,984,369.89	Purchasing stocks over the book value

8. Long-term Debt Investment

	Ending Balance	Beginning Balance
Bond Investment	501,722,616.34	464,454,894.72
Lease Investment	—	81,266,702.15
Total	501,722,616.34	545,721,596.87

Bond investment:

Type of Bonds	US Treasury Zero Coupon Bonds
Par Value	USD 71,475,000.00
Interest Rate per Annum	8.0435477%
Acquisition Cost	USD 27,810,207.00
Maturity Date	February 2004
Interest Receivable, Beginning	USD 28,296,253.99
Interest Accrued, Current	USD 4,512,949.92
Interest Receivable, Ending	USD 32,809,203.91
Ending Balance	USD 60,619,410.91

Equivalent to RMB 501,722,616.34 at the exchange rate of @ 8.2766 prevailing at the end of year.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)

Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

9. Fixed Assets and Accumulated Depreciation

(1) Cost

Items	Beginning Balance	Increase, Current	Amortization, Current	Ending Balance
Self-purchased Aircraft	3,463,208,269.94	2,410,285,068.63	4,189,600.00	5,869,303,738.57
Aircraft Engines	1,551,690,332.18	150,685,342.19	54,595,217.26	1,647,780,457.11
Aircraft Held under Financial Lease	19,002,924,018.88	–	846,983,680.57	18,155,940,338.31
Building & Premises	1,527,037,876.08	296,416,462.66	24,864,267.96	1,798,590,070.78
Equipment	1,354,097,532.76	103,144,343.92	37,528,862.48	1,419,713,014.20
Vehicles	564,121,932.22	181,732,713.98	33,666,075.40	712,188,570.80
Total	27,463,079,962.06	3,142,263,931.38	1,001,827,703.67	29,603,516,189.77

(2) Accumulated Depreciation

Items	Beginning Balance	Increase, Current	Amortization, Current	Ending Balance
Self-purchased Aircraft	1,470,337,554.60	977,397,056.64	1,060,150.84	2,446,674,460.40
Aircraft Engines	707,634,321.55	101,282,119.14	47,934,064.10	760,982,376.59
Aircraft Held under Financial Lease	7,087,286,184.53	1,003,174,124.68	390,073,866.78	7,700,386,442.43
Building & Premises	179,637,176.32	60,779,997.23	8,186,161.24	232,231,012.31
Equipment	615,564,976.18	102,436,220.16	18,787,080.43	699,214,115.91
Vehicles	341,815,273.45	110,349,691.50	20,038,369.90	432,126,595.05
Total	10,402,275,486.63	2,355,419,209.35	486,079,693.29	12,271,615,002.69

(3) Net Value

Items	Ending Balance	Beginning Balance
Self-purchased Aircraft	3,422,629,278.17	1,992,870,715.34
Aircraft Engines	886,798,080.52	844,056,010.63
Aircraft Held under Financial Lease	10,455,553,895.88	11,915,637,834.35
Building & Premises	1,566,359,058.47	1,347,400,699.76
Equipment	720,498,898.29	738,532,556.58
Vehicles	280,061,975.75	222,306,658.77
Total	17,331,901,187.08	17,060,804,475.43

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

9. Fixed Assets and Accumulated Depreciation (Cont'd)

(3) Net Value (Cont'd)

The increase of fixed assets this year includes RMB 643,603,944.33 transferred from construction-in-progress. The decrease of fixed assets this year is due to the disposal of aircraft and ground assets, bringing a revenue of RMB 16,690,696.18 from disposal of aircraft and engines and the relevant expenses are RMB 1,529,449.16. The revenue and expense from the disposal of ground assets is RMB 1,437,768.10 and RMB 10,176,587.42 respectively. The ending balance of fixed assets includes RMB 91,534,687.72 net value of aircraft under operating lease.

(4) Provision for Impairment of Fixed Assets

Item	Beginning Balance	Increase, Current	Decrease Current	Ending Balance	Reason
Self-purchased Aircraft and engines	—	3,570,000.00	—	3,570,000.00	Useless. The recoverable amount is lower than the carrying amount.

10. Construction-In-Progress

Projects	Beginning Balance	Increase, Current	Decrease, Current		Ending Balance	Source of Fund	Progress
			Transferred to Fixed Assets	Other			
Advance Payment for A340 Aircraft	230,392,895.44	509,101,832.02	—	—	739,494,727.46	Loans, self-financing	Uncompleted
Advance payment for B737 Aircraft	8,071,147.50	324,060,549.63	—	—	332,131,697.13	Loans, self-financing	Uncompleted
Pudong Airport (Phase I)	28,757,593.15	325,425,819.63	—	254,270,652.00	99,912,760.78	Loans, self-financing	Uncompleted
Logistics Center (II) of Pudong Airport	—	45,733,938.80	—	—	45,733,938.80	self-financing	Uncompleted
Xiamen International Travel Building	27,700,000.00	—	—	—	27,700,000.00	self-financing	Uncompleted
Logistics Center (I) of Pudong Airport	38,600.00	27,671,049.00	3,906,626.00	38,600.00	23,764,423.00	self-financing	Uncompleted
No. 3 Apartment of Block K-3, Pudong Airport	15,695,408.32	—	—	—	15,695,408.32	self-financing	Uncompleted
Modification of A340BFE into B2381	—	15,278,341.30	—	—	15,278,341.30	self-financing	Uncompleted
Communication Network of Pudong Airport	28,753,727.80	3,452,231.60	14,907,143.60	3,085,194.00	14,213,621.80	self-financing	Uncompleted

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)

Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

10. Construction-In-Progress (Cont'd)

Projects	Beginning Balance	Increase, Current	Decrease, Current		Ending Balance	Source of Fund	Progress
			Transferred to Fixed Assets	Other			
Modification of A340BFE into B2382	–	12,764,059.30	–	–	12,764,059.30	self-financing	Uncompleted
Modification of A340BFE into B2383	–	7,706,746.48	–	–	7,706,746.48	self-financing	Uncompleted
Modification of A340BFE into B2380	–	7,182,841.32	–	–	7,182,841.32	self-financing	Uncompleted
Flight Building	2,000,000.00	4,760,000.00	–	–	6,760,000.00	self-financing	Uncompleted
Modification of A340BFE into B2384	–	6,019,365.65	–	–	6,019,365.65	self-financing	Uncompleted
Aircraft Appliance Warehouse	4,360,000.00	–	–	–	4,360,000.00	self-financing	Uncompleted
No. 9 Lochus, Military Police	–	3,800,000.00	–	–	3,800,000.00	self-financing	Uncompleted
24 Apartments	3,048,995.95	579,104.00	–	–	3,628,099.95	self-financing	Uncompleted
Garage for Special Vehicles	2,927,407.11	493,810.00	–	–	3,421,217.11	self-financing	Uncompleted
Airport Land	–	3,249,605.00	–	–	3,249,605.00	self-financing	Uncompleted
Garage	–	3,233,759.50	–	–	3,233,759.50	self-financing	Uncompleted
Overhaul of Eastern Air Mansion	–	3,029,887.42	–	–	3,029,887.42	self-financing	Uncompleted
Garbage Disposal Center	2,891,761.72	555.00	–	–	2,892,316.72	self-financing	Uncompleted
Special Garage Project	–	2,730,000.00	–	–	2,730,000.00	self-financing	Uncompleted
Warehouse	–	2,612,815.85	–	–	2,612,815.85	self-financing	Uncompleted
Electricity Capacity Increase Project	1,340,000.00	–	–	–	1,340,000.00	self-financing	Uncompleted
Others (83 items)	503,416,573.97	195,764,686.58	624,790,174.73	68,770,106.57	5,620,979.25	self-financing	Uncompleted
Total	859,394,110.96	1,504,650,998.08	643,603,944.33	326,164,552.57	1,394,276,612.14		

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

10. Construction-In-Progress (Cont'd)

Including: Capitalized interests

Project	Beginning Balance	Increase, Current	Amortization, Current	Ending Balance
Advance payment for A340 aircraft	5,840,909.74	33,709,659.74	–	39,550,569.48
Advance payment for A320 aircraft	29,084,995.87	13,695,146.32	42,780,142.19	–
Advance payment for B737 aircraft	–	3,404,764.81	–	3,404,764.81
Pudong Base	–	2,378,169.51	–	2,378,169.51
Total	34,925,905.61	53,187,740.38	42,780,142.19	45,333,503.80

Provision for impairment of construction-in-progress

Project	Beginning Balance	Increase, Current	Decrease Current	Ending Balance	Reason
Xiamen International Travel Building	10,000,000.00	–	–	10,000,000.00	Collateralized. The cost is above net realizable value.

11. Intangible Assets

Category	Initial Amount	Beginning Balance	Increase, Current	Transferred Out, Current	Amortization, Current	Ending Balance	Amortization Accumulated	Remaining Years	Acquisition Methods
Land use right	1,359,834,752.53	878,419,157.00	428,883,525.17	11,279,600.00	28,303,582.09	1,267,719,500.08	92,115,252.45	10~588 months	Invested, Purchased
Premise use right	407,950.00	147,500.82	–	–	43,929.00	103,571.82	304,378.18	10~588 months	Invested, Purchased
Others	1,177,165.00	–	1,139,664.99	–	107,930.00	1,031,734.99	145,430.01	10~588 months	Invested, Purchased
Total	1,361,419,867.53	878,566,657.82	430,023,190.16	11,279,600.00	28,455,441.09	1,268,854,806.89	92,565,060.64		

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

11. Intangible Assets (Cont'd)

The name of the registered company on land use right certificate of Shanghai Hongqiao Airport and Anhui Luogang Airport is still Eastern Airline Group Company (the net book value of this asset as at the end of 2001 is RMB 336,610,836.86), Eastern Airline Group Company is applying for approval from relevant government authority about the transfer procedure of the land use right. Before the completion of this procedure, the Company has restricted right in the transfer or collateral of this asset for the registered company on the land use right certificate is still Eastern Airline Group Company. But it will not influence the occupation and use of the land. The Company does not think this will have any significant influence on the financial condition of the Company.

12. Long-term Expenses to be Amortized

Items	Initial Initial Amount	Period Amortization	Balance Beginning	Increase, Current	Amortization, Current	Amortization Accumulated	Ending Balance
Organization Expenses	8,569,727.31		5,852,172.41	693,323.72	6,545,496.13	8,569,727.31	–
Uniforms Cost	31,373,216.35		17,058,133.35	14,315,083.00	12,704,391.30		18,668,825.05
Customs Duties and VAT on Aircraft Held under Operating Lease	189,986,357.76	142 -143 months	84,536,101.51	–	16,017,760.50	121,468,016.75	68,518,341.01
Supervision Charges on Aircraft with Tax Reduction	3,090,236.61	10 years	1,854,142.05	–	309,023.64	1,545,118.20	1,545,118.41
Interest for Aircraft Leasing	61,058,866.27	5 years	17,541,841.76	–	17,541,841.76	61,058,866.27	–
Flying Crew Training Expenses	69,646,000.00	4 years	44,268,949.00	18,964,565.00	25,214,604.61	31,627,090.61	38,018,909.39
A320 Modification Expenses	111,299,614.33	5 years	32,186,067.40	44,385,742.36	8,665,463.40	43,393,267.97	67,906,346.36
Other Deferred Expenses			21,165,798.35	21,631,008.39	6,957,005.84		35,839,800.90
Total			224,463,205.83	99,989,722.47	93,955,587.18		230,497,341.12

13. Short-term Loans

Category	Ending Balance	Beginning Balance
Guarantee Loans	982,641,751.70	200,000,000.00
Credit Loans	300,000,000.00	400,000,000.00
Total	1,282,641,751.70	600,000,000.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

14. Accounts Payable

Accounts payable refer to those amounts payable to other airline companies, which have been billed but unsettled yet and the amounts payable for purchase of aviation equipment. The ending balance is RMB 251,391,559.30. There is no amount due from parties who hold more than 5% of the Company's shares.

15. International Sales in Advance of Carriage

<International Sales in Advance of Carriage> refers to the amount pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for international routes. On receipt of evidence of transportation provided by the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <International Sales in Advance of Carriage> has an ending credit balance of RMB 538,731,989.20.

16. Domestic Sales in Advance of Carriage

<Domestic Sales in Advance of Carriage> refers to the amounts pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for domestic routes. On receipt of the evidence of transportation from the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <Domestic Sales in Advance of Carriage> has an ending credit balance of RMB 119,631,651.17.

17. Dividend payable

The year-end balance is RMB 97,339,000, which is the cash dividend payable this year.

18. Tax Payable

	Ending Balance	Beginning Balance
Income tax	84,705,366.97	69,150,789.29
Business tax	45,216,696.64	39,371,265.85
City construction tax	3,265,116.08	2,979,801.89
Value added tax	20,179,599.25	(1,652,796.13)
Others	4,220,832.50	3,669,576.80
Total	157,587,611.44	113,518,637.70

19. Civil Aviation Infrastructure Levies Payable

The civil aviation infrastructure levies are charged at a certain percentage on the revenue and are payable to CAAC. The year-end balance is RMB 242,681,222.73.

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

20. Other Payable

	Ending Balance	Beginning Balance
	683,820,457.33	564,559,146.57

The ending balance is RMB 683,820,457.33, of which RMB 34,605,037.79 is due to Eastern Air Group Company, a shareholder holding over 5% of the Company's share capital. The balance of other payable with an aging of over 3 years is RMB 7,786,749.91, all of which is deposit from agents for tickets.

21. Accrued Expenses

Item	Ending Balance	Beginning Balance	Reason of Accrual
Accrued Interest on Aircraft under Financial Lease	129,518,091.66	141,431,624.31	Accrued but not paid
Aircraft Operating Lease Obligation	28,003,985.38	44,599,320.32	Accrued but not paid
Overhaul Expenses of Aircraft Engines	1,055,862,670.18	967,241,058.41	Accrued but not paid
Taking-off & Landing Charges	371,787,149.00	277,882,674.86	Accrued but not paid
Aircraft Fuel	162,609,835.91	234,674,562.48	Accrued but not paid
Food and Beverage	79,344,948.53	39,950,311.04	Accrued but not paid
Insurance Premium on Aircraft	3,687,972.37	1,560,380.00	Accrued but not paid
Off- Port Information Expense	20,663,272.88	29,546,294.70	Accrued but not paid
Flight Training Expenses	2,441,386.50	448,704.00	Accrued but not paid
Flying Hours Expenses	8,664,909.48	6,996,926.85	Accrued but not paid
Others	3,928,440.22	42,891,905.95	Accrued but not paid
Total	1,866,512,662.11	1,787,223,762.92	

22. Accrued Liability

The year-end balance of accrued liability is RMB 4,546,797.00. The Company took part in the construction of Xiamen International Travel Building (the Company was responsible for 50% of the construction), which was later pledged as collateral for loans by the other party. Later the other party had no ability to repay principal and interest so the court ruled that the Company should undertake the joint responsibility. The balance is the amount of principal and interest that should be born by the Company according to the verdict of court.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

23. Current Portion of Long-term Liabilities

	Ending Balance	Maturity	Credit form	Beginning Balance
Current Portion of Long-term Account Payable	2,844,416,833.25			1,751,328,246.77
Current Portion of Long-term Loans	100,000,000.00	2002	Guarantee	—
Current Portion of Amount Payable due to Assets Transfer	30,000,000.00			—
Total	2,974,416,833.25			1,751,328,246.77

24. Long-term Loans

Type	Ending Balance	Beginning Balance
Collateralized	855,690,568.88	—
Guaranteed	1,900,000,000.00	1,700,000,000.00
Credit	450,000,000.00	400,000,000.00
Total	3,205,690,568.88	2,100,000,000.00

The balance of long-term loans is RMB 1,105,690,568.88 more than last year, which is mainly the new loans for the projects of Pudong Base and the advance payment for aircraft.

25. Long-term Account Payable

Item	Ending Balance
Accounts payable for fixed assets held under financial lease (1)	9,021,810,379.06
Accounts payable to China Civil Aviation Flight Institute (2)	210,000,000.00
Total	9,231,810,379.06

(1) The ending balance of accounts payable for fixed assets held under financial lease is RMB 9,021,810,379.06, which is payable to financial lease companies for aircraft held under financial lease agreement. The balance includes USD 860,001,265.77 translated at the exchange rate of @ 8.2766; DEM 195,787,762.82, translated at @3.7415; JPY 18,591,921,089.00, translated at @0.063005.

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

25. Long-term Account Payable (Cont'd)

- (2) The Company bought the assets of Great Wall Airlines Co., which was under the jurisdiction of China Civil Aviation Flight Institute, at a price of RMB 270 million. According to the transfer agreement, the Company will pay in installments in 9 years starting from June this year.

26. Share Capital

	Beginning Balance	Change, Current	Ending Balance
I. Unlisted Shares			
1. Sponsors' Shares			
Including:			
State-owned Shares	3,000,000,000		3,000,000,000
2. Subscribed Legal Person Shares			
3. Internal Staff Shares			
Total Unlisted Shares	3,000,000,000		3,000,000,000
II. Listed Shares			
1. Domestically Listed RMB Common Shares	300,000,000		300,000,000
2. Domestically Listed Foreign Invested Shares			
3. Overseas Listed Foreign Invested Shares	1,566,950,000		1,566,950,000
Total Listed Shares	1,866,950,000		1,866,950,000
III. Total Capital Shares	4,866,950,000		4,866,950,000

27. Capital Reserve

Item	Beginning Balance	Increase, Current	Decrease, Current		Ending Balance
Premium on Shares	954,456,511.50	–	–		954,456,511.50
Reserve for Acquisition of Donated Assets	1,256,468.96	–	1,256,468.96		–
Reserve for Asset Revaluation Increment	283,412,244.60	299,130.00	40,094,852.43	Note 1	243,616,522.17
Capital Translation Difference of Investee Companies	28,749,778.68	–	–		28,749,778.68
Reserve for Investment	–	978,229.90	–		978,229.90
Other Capital Surplus Transferred In	180,079,184.49	41,984,925.78	187,052,778.06	Note 2	35,011,332.21
Total	1,447,954,188.23	43,262,285.68	228,404,099.45		1,262,812,374.46

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

27. Capital Reserve (Cont'd)

Note 1: The current decrease of <Capital Surplus-Reserve for Asset Revaluation Increment> mainly refers to the amortization of asset evaluation increment of RMB 400,948,524.29 formed during the restructuring of the Company for public listing. From year 1998, the balance is to be amortized evenly over a period of 10 years into < Capital Surplus-Other Capital Surplus Transferred In>.

Note 2: The current decrease of <Capital Surplus-Other Capital Surplus Transferred In> refers to the reversal by public housing fund. According to the resolution of Shareholders' Meeting, the beginning balance of public housing fund shall first reverse Surplus Reserve and the difference will reverse capital surplus.

28. Surplus Reserve

Item	Beginning Balance	Increase, Current	Decrease, Current	Ending Balance
Statutory Surplus Reserve Fund	132,528,900.39	1,680,597.37	115,311,276.72	18,898,221.04
Public Welfare Fund	98,617,342.62	1,680,597.37	81,399,718.95	18,898,221.04
Discretionary Surplus Reserve Fund	8,038,301.83	—	8,038,301.83	—
Total	239,184,544.84	3,361,194.74	204,749,297.50	37,796,442.08

The current decrease of surplus reserve refers to reversal by the beginning balance of public housing fund according to the resolution of Shareholders' Meeting.

29. Undistributed Profit

Beginning Balance	52,459,098.41
Less: Retrospective Adjustment of Provision for Impairment of Construction-in-progress	10,000,000.00
Less: Insufficiency of Capital Reserve to Reverse Public Welfare Fund of Subsidiaries	863,665.92
Beginning Balance after Adjustment	41,595,432.49
Add: Profit, Current	132,919,443.31
Less: Appropriation of Surplus Reserve	3,361,194.74
Dividends of Common Shares Payable	97,339,000.00
Ending Balance	73,814,681.06

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

29. Undistributed Profit (Cont'd)

The profit this year will be used to compensate the losses of 1998. The appropriation of surplus reserve is made by China Cargo Airlines Co., Ltd., a subsidiary included in the consolidation scope. According to a resolution of the second regular meeting of the third Board of Directors in 2002, the Company would distribute a 0.2-yuan cash dividend (tax inclusive) for every 10 shares held to all shareholders. The appropriation of total distributable profit rolled from prior years is RMB 97,339,000.

30. Principal Operation Revenue

Category		Year 2001	Year 2000
Domestic route	Passenger	5,275,865,570.12	4,277,401,266.78
	Cargo	233,606,774.54	259,424,680.86
	Charter	224,800,320.17	140,079,412.40
	Subtotal	5,734,272,664.83	4,676,905,360.04
International route	Passenger	3,009,924,864.88	3,051,861,918.47
	Cargo	1,671,555,627.47	1,717,153,430.85
	Charter	65,658,603.09	68,109,056.52
	Subtotal	4,747,139,095.44	4,837,124,405.84
Regional route	Passenger	2,019,820,322.02	1,935,939,614.87
	Cargo	233,948,358.95	234,081,671.15
	Charter	3,593,843.17	5,604,300.97
	Subtotal	2,257,362,524.14	2,175,625,586.99
Agent fee income		88,938,533.33	128,187,130.90
Training income		11,626,471.05	3,915,663.23
Total		12,839,339,288.79	11,821,758,147.00

The revenue of top five clients totals RMB 299,267,455.00, representing 2.33% of the total principal operation revenue.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

31. Principal Operation Cost

Item	Year 2001	Year 2000
Direct Operating Expenses	9,187,502,108.64	8,524,789,201.14
Including: Salaries & Bonus	304,209,760.84	266,559,420.91
Welfare	41,665,562.00	37,539,523.57
Uniforms Cost	5,711,434.15	5,027,293.64
Aircraft Fuel	2,612,540,205.58	2,328,802,361.15
Amortization of Aviation Consumables	111,543,804.44	113,872,522.69
Amortization of High-price Rotables	530,286,319.45	442,608,955.12
Depreciation of Engines	1,287,876,512.67	1,556,484,708.60
Repair of Engines	741,431,825.56	619,628,030.26
Insurance Premium of Engines	60,127,336.04	57,939,251.42
Charges of Operating Lease	972,157,501.09	772,497,812.02
Taking-off & Landing Fee	1,702,898,013.70	1,565,096,982.59
Food & Beverage	569,600,358.21	498,342,853.63
Flight Training Expenses	68,222,704.50	63,934,502.33
Indemnity of Luggage	3,363,148.98	3,245,804.40
Others	175,867,621.43	193,209,178.81
Indirect Operating Expenses	707,830,811.81	594,670,517.80
General Aviation Cost	347,299.94	(114,840.19)
Total	9,895,680,220.39	9,119,344,878.75

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)

Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

32. Other Operation Profit

Item	Year 2001			Year 2000		
	Other Operation Income	Cost and Taxes incurred	Other Operation Profit	Other Operation Income	Cost and Taxes incurred	Other Operation Profit
Material Transfer	4,087,328.78	2,469,459.47	1,617,869.31	4,780,236.65	7,937,788.73	(3,157,552.08)
Commission and Fee	10,026,677.53	329,724.02	9,696,953.51	11,731,195.78	427,526.96	11,303,668.82
Ground Service	455,072,792.31	106,971,029.18	348,101,763.13	386,393,404.04	114,282,373.61	272,111,030.43
Aircraft Sub-lease	196,367,690.14	93,364,271.96	103,003,418.18	116,134,456.42	100,576,054.32	15,558,402.10
Fuel Additional	74,641,151.06	2,530,625.06	72,110,526.00	63,814,079.65	2,310,609.75	61,503,469.90
Others	11,244,634.58	4,695,288.15	6,549,346.43	19,453,891.80	19,754,689.36	(300,797.56)
Total	751,440,274.40	210,360,397.84	541,079,876.56	602,307,264.34	245,289,042.73	357,018,221.61

The income from aircraft sub-lease has increased due to the increase of business volume of aircraft operating lease.

The income from ground service has increased due to the increase of airlines and flights for them the Company provides ground service as well as the increase of cargo treatment and ground service business volume.

33. Financial Expense

Item	Year 2001	Year 2000
Interest Expense	916,161,454.66	959,275,040.25
Less: Interest Income	78,968,249.81	90,050,628.22
Exchange Loss	31,143,057.54	8,622,217.78
Less: Exchange Gains	173,291,160.98	133,098,794.31
Others	4,676,902.51	3,630,189.12
Total	699,722,003.92	748,378,024.62

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

34. Investment Income

Item	Year 2001	Year 2000
Bond Investment	37,354,688.77	34,579,176.06
Lease Investment	5,649,431.84	13,992,869.22
Other Equity Investment	13,320,528.17	3,726,487.02
Current Investment	971,863.10	1,540,913.75
Total	57,296,511.88	53,839,446.05

35. Non-operating Income

Item	Year 2001	Year 2000
Net Gains on Disposal of Fixed Assets	18,128,464.28	262,810,393.21
Penalty Income	2,939,939.96	2,237,973.15
Aircraft Lease Termination Fee	0.00	13,652,571.34
Others	12,243,975.36	2,557,871.68
Total	33,312,379.60	281,258,809.38

36. Non-operating Expenses

Item	Year 2001	Year 2000
Net Loss on Disposal of Fixed Assets	11,706,036.58	14,062,243.76
Penalties	1,570,182.50	1,480,086.31
Donation	668,359.77	269,093.20
Aircraft Lease Termination Charge	19,057,766.57	—
Asset Collateral Expense	6,546,797.00	—
Provision for Impairment of Fixed Assets	3,570,000.00	—
Others	5,140,673.24	4,936,687.38
Total	48,259,815.66	20,748,110.65

The non-operating expenses have increased by 132.60% compared with last year, mainly because of the aircraft lease termination charge.

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

37. Cash paid for other investment is RMB -24,007,545.82, which is the difference of cash paid for the acquisition of Great Wall Airlines Co. and the monetary fund on the account of Great Wall Airlines Co. on consolidation date.

38. Main Items to Financial Statements of the Parent Company

(1) Accounts receivable

Aging	Amount	Ending Balance Percentage (%)	Provision for Bad Debts	Amount	Beginning Balance Percentage (%)	Provision for Bad Debts
Within 1 year	710,213,840.87	86.27	2,130,641.52	970,218,729.40	94.29	2,983,027.29
In the second year	59,962,470.62	7.28	26,927,630.40	20,612,930.48	2.00	7,414,679.04
In the third year	17,673,072.74	2.15	8,169,768.23	4,676,357.66	0.45	2,086,445.62
In the fourth year	5,865,479.99	0.71	4,342,872.82	19,623,741.25	1.91	6,885,076.99
In the fifth year	15,867,103.79	1.93	7,170,585.09	9,909,234.66	0.97	8,963,694.29
After 5 years	13,655,402.49	1.66	13,385,756.40	3,922,590.50	0.38	3,637,211.28
Total	823,237,370.50	100.00	62,127,254.46	1,028,963,583.95	100.00	31,970,134.51

The top 5 companies with largest amount due to the Company owe a total amount of RMB 294,690,204.56 to the Company, which is 35.80% of the ending balance.

Among the debtors there is no company that holds more than 5% of the Company's share capital.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(1) Accounts receivable (Cont'd)

Special provision is made for the following companies:

Company	Amount	Aging	Percentage	Reason
Shanghai East Airlines International Tour Transportation Co., Ltd.	14,858,328.63	1-2 years	50%	Doubtful collection of ticket proceeds
Jinshan Sino-foreign Enterprises Service Co.	19,195,743.00	1-2 years	50%	Doubtful collection of ticket proceeds
Shanghai Jinqiao Aviation Consultation Co., Ltd.	15,033,514.50	1-2 years	50%	Doubtful collection of ticket proceeds
Kunshan Xunjie Travel Service Co.	2,986,609.50	2-3 years	50%	Doubtful collection of ticket proceeds
Shanghai Aohang Aviation Service Co., Ltd.	5,055,776.32	2-3 years	50%	Doubtful collection of ticket proceeds
Eastern Airlines Zhoushan Travel Industrial Development Co.	4,735,148.33	2-3 years	50%	Doubtful collection of ticket proceeds
Nanfeng Express Mail Co., Ltd.	2,226,583.00	Above 5 years	100%	Shut up
Shenzhen Kanghui Co., Ltd.	2,327,603.83	4-5 years	50%	Litigation
China Civil Aviation Weifang Station	5,127,073.70	5-6 years	100%	Litigation
Shandong Jinan International Aviation Service Co., Ltd.	3,107,607.43	Above 5 years	100%	Insolvency
Others	19,121,791.56	2-3 years	50%-100%	Doubtful collection of ticket proceeds
Total	93,775,779.80			

(2) Other Receivable

Aging	Amount	Ending Balance Percentage (%)	Provision for Bad Debts	Amount	Beginning Balance Percentage (%)	Provision for Bad Debts
Within 1 Year	367,236,791.29	52.13	4,484,035.36	439,091,466.94	57.07	4,609,784.86
In the Second Year	137,058,789.19	19.45	21,994,307.15	221,187,253.00	28.75	15,198,286.32
In the Third Year	148,692,500.60	21.10	18,548,293.32	10,911,832.98	1.42	3,582,999.71
In the Fourth Year	10,069,055.58	1.43	3,548,147.57	61,521,486.04	8.00	10,800,335.65
In the Fifth Year	7,009,851.67	0.99	1,401,970.33	5,480,433.00	0.71	1,096,086.60
After 5 Years	34,524,213.98	4.90	24,474,398.73	31,127,609.82	4.05	22,832,486.86
Total	704,591,202.31	100.00	74,451,152.46	769,320,081.78	100.00	58,119,980.00

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(2) Other Receivable (Cont'd)

Among the above, the first 5 companies with largest amount due to the Company are as follows:

Company	Outstanding Balance	Time	Reason
CFM International Incorporated	201,130,843.22	2000-2001	Discount for purchasing flight equipment
Shanghai Eastern Air Catering Co., Ltd.	30,000,000.00	1999	Payments of construction projects
People's Insurance Company of China	23,650,770.93	1998-1999	Compensation receivable
The Air CEA (Cayman) Co., Ltd.	17,718,052.04	2001	Reimbursement of aircraft lease
Customs	15,000,000.00	2001	Deposit
Total	287,499,666.19		

The above 5 companies owe a total amount of RMB 287,499,666.19, which is 40.80% of the ending balance.

Among the debtors, Eastern Air Group Company, which holds over 5% of the Company's share capital has an amount of RMB 638,484.55 due to the Company.

The special provision for bad debts is made for the following companies:

Company	Amount	Aging	Percentage	Reasons
Eastern Airlines Industrial Co., Ltd.	6,237,037.58	Above 5 years	100%	Dispute
Finance Dept., CAAC	6,782,783.39	Above 5 years	100%	Dispute
Jincheng Group	10,000,000.00	1-2 years	100%	Joint guarantee obligation
Others	21,492,325.43			
Total	44,512,146.40			

(3) Long-term Equity Investment

Item	Beginning Balance				Ending Balance	
	Amount	Provision for Loss	Increase, Current	Decrease, Current	Amount	Provision for Loss
Securities Investment	–	–	–	–	–	–
Other Equity Investment	1,026,884,826.74	–	161,804,071.88	41,600,907.60	1,147,087,991.02	–
Total	1,026,884,826.74	–	161,804,071.88	41,600,907.60	1,147,087,991.02	–

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(3) Long-term Equity Investment (Cont'd)

a. Other equity investment

(i) Investments to subsidiary

Company	Investment Period	Amount	Ending Balance	% of Registered Capital of the Investee Company	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current	Cash Dividend Received Current
Eastern Airlines Industrial Co., Ltd.	1998/3-2028/3	39,600,000.00	39,600,000.00	80%	—	—	—
Qi Lu Eastern Air Catering Co., Ltd.	1993/5-2008/5	8,688,333.68	11,793,559.97	65%	3,105,226.29	863,346.57	147,680.65
CEA Jiangsu Co. Ltd.	1993/4-	141,626,980.00	134,770,492.39	55%	(6,856,487.61)	(16,822,188.15)	—
Shanghai Eastern Flight Training Co Ltd.	1995/12-2045/12	340,100,000.00	322,481,195.74	95%	(17,618,804.26)	1,885,834.39	—
China Cargo Airlines Ltd.	1998/7-	350,000,000.00	487,329,339.39	70%	137,329,339.39	16,805,973.71	—
Total		880,015,313.68	995,974,587.49		115,959,273.81	2,732,966.52	147,680.65

(ii) Investment to associated company

Company	Investment Period	Amount	Ending Balance	% of Registered Capital of the Investee Company	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current	Cash Dividend Received current
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	1995/12-2017/12	6,978,881.09	21,199,701.81	40%	14,220,820.72	3,855,067.59	2,600,000.00
Yantai Eastern Air Catering Co., Ltd.	1997/3-2012/3	3,040,000.00	3,996,396.01	40%	956,396.01	276,040.33	136,000.00
Eastern China Kaiya System Integration Co., Ltd.	1999/5-	740,000.00	4,321,508.84	37%	3,581,508.84	2,033,820.09	740,000.00
Shanghai Hongpu Civil Airport Communication Co., Ltd.	2000/6-	7,500,000.00	7,425,458.23	30%	(74,541.77)	(105,054.16)	—
Eastern Air Group Finance Co., Ltd.	2001/1-	106,364,000.00	110,080,338.64	25%	3,162,519.76	3,162,519.76	—
Total		124,622,881.09	147,023,403.53		21,846,703.56	9,222,393.61	3,476,000.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(3) Long-term Equity Investment (Cont'd)

a. Other equity investment (Cont'd)

(iii) Other equity investments

Name of the Invested Company	Investment Period	Amount	Ending Balance	% of Registered Capital of the Invested Company	Change in Owner's Equity, Cumulative	Change in Owner's Equity, Current
CAAC Information Network Co., Ltd.	2001/6-	4,090,000.00	4,090,000.00	0.46%	4,090,000.00	4,090,000.00

(iv) Equity Investment Difference

Invested Company	Initial Amount	Period	Amortization, Period	Remaining Amount	Reason
Eastern Airline Group Financial Co., Ltd.	5,538,188.77	10 years	553,818.88	4,984,369.89	Purchasing stocks over the book value

(4) Long-term debt investment

	Ending Balance	Beginning Balance
Bond Investment	501,722,616.34	464,454,894.72
Lease Investment	—	81,266,702.15
Total	501,722,616.34	545,721,596.87

Bond investment

Type of Bonds	US Treasury Zero Coupon Bonds
Par Value	USD71,475,000.00
Interest Rate per Annum	8.0435477%
Acquisition Cost	USD27,810,207.00
Maturity Date	February 2004
Interest Receivable, Beginning	USD28,296,253.99
Interest Accrued, Current	USD4,512,949.92
Interest Receivable, Ending	USD32,809,203.91
Ending Balance	USD60,619,410.91

Equivalent to RMB 501,722,616.34 at the exchange rate of @8.2766 prevailing at the end of year.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(5) Investment Income

	Year 2001	Year 2000
Debt Investment Income	37,354,688.77	34,579,176.06
Lease Investment Income	5,649,431.84	13,992,869.22
Other Equity Investment Income	50,266,787.82	113,310,414.81
Short-term Investment Income	971,863.10	1,540,913.75
Total	94,242,771.53	163,423,373.84

(6) Principal Operating Revenue

Category	Year 2001	Year 2000
Domestic route		
Passenger	4,674,148,244.41	3,781,330,988.84
Cargo	192,973,277.24	224,540,884.03
Charter	95,371,792.07	69,263,908.09
Subtotal	4,962,493,313.72	4,075,135,780.96
International route		
Passenger	3,004,250,996.77	3,051,861,918.47
Cargo	670,901,217.89	784,522,220.63
Charter	25,779,333.95	45,009,056.52
Subtotal	3,700,931,548.61	3,881,393,195.62
Regional route		
Passenger	1,892,172,057.80	1,832,242,700.38
Cargo	215,411,939.85	231,472,175.67
Charter	2,828,843.17	354,544.03
Subtotal	2,110,412,840.82	2,064,069,420.08
Agent fee	62,216,246.68	78,140,456.52
Total	10,836,053,949.83	10,098,738,853.18

The revenue from top 5 companies is RMB 299,267,455.00, representing 2.76% of the total.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)

Year ended 31 December 2001

V. Explanations to Main Items of Financial Statements (Unit: RMB) (Cont'd)

38. Main Items to Financial Statements of the Parent Company (Cont'd)

(7) Principal Operating Cost

	Year 2001	Year 2000
Direct Operating Expenses	7,677,548,356.73	7,371,124,551.11
Including: Salaries & Bonus	268,952,485.60	243,053,357.60
Welfare	36,067,948.44	34,220,207.39
Uniforms Cost	5,222,785.55	5,260,396.68
Aircraft Fuel	2,115,972,696.59	1,909,433,890.98
Amortization of Aviation Consumables	98,459,157.37	103,915,791.50
Amortization of High-price Rotables	464,152,043.80	421,900,867.75
Depreciation of Engines	1,153,602,642.65	1,401,014,182.20
Repair of Engines	617,688,072.84	586,865,198.66
Insurance Premium of Engines	49,161,228.93	51,988,158.96
Charges of Operating Leasing	705,915,430.45	566,877,054.56
Taking-off & Landing Fee	1,418,916,840.27	1,332,048,995.69
Food & Beverage	523,815,579.73	466,431,559.35
Flight Training Expenses	83,126,482.75	80,644,257.10
Indemnity of Luggage	3,129,397.57	2,991,034.73
Others	133,365,564.19	164,479,597.96
Indirect Operating Expenses	631,186,301.54	523,744,511.44
General Aviation Cost	347,299.94	(114,840.19)
Total	8,309,081,958.21	7,894,754,222.36

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

VI. Related Party Relationships and Transactions

1. Situation of Related Parties with Control Relationship

(1) Related parties with control relationship

Company	Registered Address	Main Operations	Relation with the Company	Type	Legal Representative
Eastern Air Group Company	Hongqiao West Rd., Shanghai	Management of subsidiary companies	Parent company	State-owned	Ye Yigan
Shanghai Eastern Flight Training Co., Ltd.	Waigaoqiao, Shanghai	Training of flying crew and other staff in connection with aviation	Subsidiary	Limited Liability	Yan Banghong
Qi Lu Eastern Air Catering Co. Ltd.	Jinan	Manufacturing and sale of food, supply of food and beverage on board	Subsidiary	Limited Liability	Wang Yunlong
Jiangsu Eastern Airlines Traveling Agency Co.	Nanjing	Tourist service, sales of souvenirs and handicraft	Subsidiary	Limited Liability	Hua Dexiang
Eastern Airlines Industrial Co., Ltd.	Beijing	Sales of packaged food, beverage, knitwear, grocery	Subsidiary	Limited Liability	Cao Jianxiong
China Cargo Airlines Co. Ltd.	Pudong New Area	Air transportation of cargo and mails over domestic and international air routes	Subsidiary	Limited Liability	Li Zhongming
Jiangnan Tourism (Hong Kong) Co.	Hong Kong	Tourist service	Subsidiary	Limited Liability	Su Guoxin
China Eastern Airlines Jiangsu Co., Ltd.	Nanjing	Air transportation of passengers, cargo and mails over domestic and approved international air routes	Subsidiary	Limited Liability	Su Guoxin
Eastern Airlines Jiangsu Advertisement Co.	Nanjing	Design of newspaper, advertisement, and presswork	Subsidiary	Collective-owned Enterprise	Yang Jianmin

VI. Related Party Relationships and Transactions (Cont'd)

1. Situation of Related Parties with Control Relationship (Cont'd)

(2) Registered capital and its movement of related parties with control relationship

Company	Beginning Balance	Increase, Current	Decrease, Current	Ending Balance
Eastern Air Group Company	748,970,000	—	—	748,970,000
Shanghai Eastern Flight Training Co., Ltd.	358,000,000	—	—	358,000,000
Qi Lu Eastern Air Catering Co. Ltd.	10,500,000	—	—	10,500,000
Jiangsu Eastern Airlines Traveling Agency Co., Ltd.	1,500,000	—	—	1,500,000
Eastern Airlines Industrial Co., Ltd.	49,500,000	—	—	49,500,000
China Cargo Airlines Co. Ltd.	500,000,000	—	—	500,000,000
Jiangnan Tourism (Hong Kong) Co.	641,100	—	—	641,100
China Eastern Airlines Jiangsu Co., Ltd.	257,503,600	—	—	257,503,600
Eastern Airlines Jiangsu Advertisement Co.	300,000	—	—	300,000

(3) Stock held and its movement of related parties with control relationship

Company	Beginning Balance		Increase, Current		Decrease, Current		Ending Balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Eastern Air Group Company	3,000,000,000.00	62	—	—	—	—	3,000,000,000.00	62
Shanghai Eastern Flight Training Co., Ltd.	340,100,000.00	95	—	—	—	—	340,100,000.00	95
Qi Lu Eastern Aviation Catering Co.	8,688,333.68	65	—	—	—	—	8,688,333.68	65
Jiangsu Eastern Airlines Traveling Agency Co., Ltd.	825,000.00	38.5	—	—	—	—	825,000.00	38.5
Eastern Airlines Industrial Co., Ltd.	39,600,000.00	80	—	—	—	—	39,600,000.00	80
China Cargo Airlines Co. Ltd.	350,000,000.00	70	—	—	—	—	350,000,000.00	70
Jiangnan Tourist (H.K.) Co.	352,605.00	55	—	—	—	—	352,605.00	55
China Eastern Airlines Jiangsu Co., Ltd.	141,626,980.00	55	—	—	—	—	141,626,980.00	55
Eastern Airlines Jiangsu Advertisement Co.	893,354.87	55	—	—	—	—	893,354.87	55

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

VI. Related Party Relationships and Transactions (Cont'd)

1. Situation of Related Parties with Control Relationship (Cont'd)

(4) Transactions with related parties with control relationship (Unit: RMB'000)

A. Transaction amount with related parties

a. Supply of food and beverage

Company	Year 2001	Year 2000
Qi Lu Eastern Air Catering Co. Ltd.	6,426	4,982

b. Lease

The Company leases an office building from Eastern Airline Group Company for a period of 50 years (from January 1, 1999 to January 1, 2049). The total rental is RMB 16 million. The rental and payment is stipulated by the lease agreement signed on December 31, 1996 and is subject to market condition.

B. Amount due from or to the related parties

	Ending Balance	Beginning Balance
Account Receivable : EA Group		80
Other Receivable : EA Group	638	186,710
Other Payable : EA Group	34,605	153,789

VI. Related Party Relationships and Transactions (Cont'd)

2. Situation of Related Parties without Control Relationship

(1) Nature of relation with related parties without control relationship

Company	Relation with the Company
Eastern Aviation Import and Export Company	Same parent company
Shanghai Eastern Air Industrial Corporation	Same parent company
Qingdao Air Service Co., Ltd.	Same parent company
Eastern Air Group Finance Co., Ltd.	Same parent company
Shanghai Eastern Real Estate Operation Co.	Same parent company
Shanghai Eastern Air Catering Co., Ltd.	Same parent company
Shanghai Eastern General Service Co.	Same parent company
Eastern (Shantou) Economic Development Co., Ltd.	Same parent company
Shanghai Eastern Aviation Equipment Manufacturing Corporation	Same parent company
Shanghai Aviation Printing Co., Ltd.	Same parent company
Eastern Aviation Advertising Service Co.	Same parent company
Shanghai Eastern Development Co.	Same parent company
Shanghai Travel Service (Hong Kong) Co., Ltd.	Same parent company
Shanghai Dongmei Aviation Corporation Limited	Same parent company
Eastern International Tourism Transportation Co., Ltd.	Same parent company
Eastern (Zhoushan) Tourism Industrial development Company	Same parent company
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	Subsidiary
Shanghai Civil Aviation Dongda Industrial Co.	Same parent company
Shanghai Eastern Air Real Estate Management Co.	Same parent company
Eastern Automobile Repair Works	Same parent company

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

VI. Related Party Relationships and Transactions (Cont'd)

2. Situation of Related Parties without Control Relationship (Cont'd)

(2) Amount of related party transactions without control relationship (Unit: RMB'000)

A. Purchase

The breakdown of purchase of fixed assets, flight equipment or food and beverage by the Company from related parties is as follows.

Company	Year 2001	Year 2000
Shanghai Eastern Air Industrial Corporation	10,688	7,405
Qingdao Air Service Co., Ltd.	10,926	7,341
Shanghai Eastern Air Catering Co., Ltd.	101,160	96,571
Eastern (Shantou) Economic Development Co., Ltd.	52,821	71,350
Eastern Aviation Advertising Service Co.	4,329	
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	19,205	
Shanghai Eastern Aviation Equipment Manufacturing Corporation	6,434	21,010

B. Receipt of service

The breakdown of services received by the Company from related parties is as follows.

Company	Year 2001	Year 2000
Eastern Aviation Import and Export Company	300,017	14,389
Shanghai Eastern Air Industrial Corporation	24,362	36,923
Shanghai Eastern Real Estate Operation Co.	5,794	3,033
Shanghai Eastern General Service Co.	15,318	14,392
Shanghai Aviation Printing Co., Ltd.	3,799	6,062
Eastern Aviation Advertising Service Co.	2,656	16,762

VI. Related Party Relationships and Transactions (Cont'd)**2. Situation of Related Parties without Control Relationship (Cont'd)**

(2) Amount of related party transactions without control relationship (Unit: RMB'000) (Cont'd)

C. Lease

The Company paid a rental of RMB 4,461 thousand to Shanghai Eastern Aviation Equipment Manufacturing Corporation for the lease of buildings and equipment.

D. Provision of fund

The placement of deposit by the Company in Eastern Air Group Finance Co., Ltd. generated interest income of RMB 2,290 thousand in 2001. The Company borrowed RMB 50 million from Eastern Air Group Finance Co., Ltd. and paid an interest of RMB 1,268 thousand this year.

E. Amounts due to or from the related parties

Accounts receivable

Company	Dec. 31, 2001	Dec. 31, 2000
Shanghai Eastern Development Co.	10,120	15,501
Shanghai Tourism (Hong Kong) Co., Ltd.	26,568	37,614
Shanghai Dongmei Aviation Corporation Limited	25,886	16,872
Eastern International Tourism Transportation Co., Ltd.	14,852	23,109
Eastern (Zhoushan) Tourism Industrial development Company	5,555	5,415
Shanghai Travel Service (Hong Kong) Co., Ltd.	92,585	67,598
Shanghai Civil Aviation Dongda Industrial Co.	1,447	–

Accounts payable

Company	Dec. 31, 2001	Dec. 31, 2000
Eastern Aviation Import and Export Company	179,514	28,781
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	–	13,608
Shanghai Eastern Air Industrial Corporation.	–	3,317

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

VI. Related Party Relationships and Transactions (Cont'd)

2. Situation of Related Parties without Control Relationship (Cont'd)

(2) Amount of related party transactions without control relationship (Unit: RMB'000) (Cont'd)

E. Amounts due to or from the related parties (Cont'd)

Other receivable

Company	Dec. 31, 2001	Dec. 31, 2000
Eastern Aviation Import and Export Company	1,677	2,945
Eastern Aviation Advertising Service Co.	1,392	1,712
Shanghai Eastern Air Industrial Corporation	6,237	6,237
Shanghai Eastern Air Catering Co., Ltd.	30,000	70,000
Shanghai Eastern Air Real Estate Management Co.	677	—

Advances to supplies

Company	Dec. 31, 2001	Dec. 31, 2000
Shanghai Eastern Aviation Equipment Manufacturing Corporation	—	7,852
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	953	—
Eastern Aviation Import and Export Company	—	22,759

Other payable

Company	Dec. 31, 2001	Dec. 31, 2000
Eastern Aviation Import and Export Company	33,175	242,608
Shanghai Eastern Air Industrial Corporation.	64	6,237
Shanghai Eastern General Service Co.	—	2,580
Shanghai Eastern Air Catering Co., Ltd.	108	—
Eastern Automobile Repair Works	5,087	—
Shanghai Eastern Air Real Estate Management Co.	1,662	—

(3) Other related party transactions

Emoluments for key management personnel (Unit: RMB'000)

	Dec. 31, 2001	Dec. 31, 2000
Number of key management personnel	9	18
Emoluments	1,028	987

VII. Commitment and Contingent Events

1. Capital Expenditure Commitment

- (1) The Company signed an agreement with an independent third party that the Company would purchase four Boeing 737-700 airplanes. Four airplanes are to be delivered in 2002.
- (2) The Company signed an agreement with an independent third party that the Company would lease ten A319 Airbus airplanes. Four airplanes had been delivered in 2000 and 2001 respectively and another 2 airplanes are expected to be delivered in 2002.
- (3) The Company signed an agreement with an independent third party to purchase five spare engines for A320 airplane. Five engines had been delivered by the end of 2001.
- (4) The Company signed an agreement with an independent third party that the company would purchase five A340 Airbus airplanes. These airplanes are to be delivered in 2003 and 2004.

2. Contingent Event

- (1) China Eastern Airlines Jiangsu Co., Ltd. ("Jiangsu Co."), a company of which 55% of the share capital is held by the Company, issued a guarantee of RMB 150,000 thousand for Nanjing Lukou International Airport Co., Ltd. for it to obtain bank loans from China Construction Bank, Jiangsu Branch. The guarantee period is from December 24, 1998 to October 20, 2004.
- (2) The Company estimates that there will be lots of foreign exchange reserve including foreign exchange in currencies of Southeast Asia from the sale of air tickets even after repaying foreign currency liabilities such as financial lease liabilities. Considering the continuing devaluation and instability of politics and economy of this area, the Company estimated that it would probably face great foreign exchange risk. To lower this risk, the Company has signed many forward foreign exchange contracts with domestic banks in 2001. According to these contracts, the Company will exchange Japanese Yen and KRW (currency of South Korea) for USD at a fixed exchange rate from 2002 to 2006. By December 31, 2001, the Company still has the following forward contracts:

Maturity	Exchange JPY for USD USD'000	Exchange KRW for USD USD'000	Total USD'000
2002	—	10,000	10,000
2003	—	—	—
2004	12,000	—	12,000
2005	12,000	—	12,000
2006	12,000	—	12,000
Total	36,000	10,000	46,000

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2001

VIII. Events Occurring after Balance Sheet Date

1. The Company sold two MD-11 cargo airplanes to China Cargo Airlines Co., Ltd. in January 2002 at a price of RMB 1,007,608,000.
2. Pursuant to No. 295 Circular of Ministry of Finance, there will be a great change in the policy of apartment assignment. The Company estimates that it will distribute RMB 80 million in subsidy to staff instead of in the form of apartments.
3. The Company signed a cooperation agreement with Bank of China and China Industrial and Commercial Bank of China and acquired credit facilities of RMB 29,600 million.
4. The Company announced that it would take part in the restructure of Wuhan Airlines Co. as a sponsor. The percentage of share holding of the Company will be 40%.

IX. Other Significant Event

The Company acquired 30% of the equity of General Electric Motors Service (Xiamen) Co., Ltd. (hereinafter referred to as "General Electric") this year, i.e., USD3,600 thousand. The premise of the acquirement is that the Company should deliver 70% of the repair of engines to "General Electric" in the next 10 years to reach to a certain volume. The Company will transfer the proceeds distributed by "General Electric" into investment until the maturity of 10 years.