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

Interim Report 2002

The Board of Directors of China Eastern Airlines Corporation Limited (the "Company") is pleased to present the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2002 (which were approved by the Board of Directors and the Supervisory Committee of the Company on 26 August 2002), with comparative figures for the corresponding period in 2001, as follows:

Financial Statements

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

Consolidated Profit And Loss Account
For the six months ended 30 June 2002

	Note	Six months ended 30 June (Unaudited) 2002 RMB'000	(Unaudited) 2001 RMB'000	(Unaudited) 2002 US$'000 (note 14)	2002 vs 2001 Increase/ (Decrease) %
Traffic revenues					
Passenger		**4,632,662**	4,611,191	**559,696**	0.5
Cargo and mail		**1,077,887**	961,606	**130,225**	12.1
Other operating revenues		**238,795**	237,504	**28,850**	0.5
Turnover	2	**5,949,344**	5,810,301	**718,771**	2.4
Operating expenses					
Wages, salaries and benefits		**463,922**	431,709	**56,049**	7.5
Take-off and landing charges		**882,705**	825,632	**106,644**	6.9
Aircraft fuel		**1,125,006**	1,296,895	**135,918**	(13.3)
Food and beverages		**288,020**	277,585	**34,797**	3.8
Aircraft depreciation and operating leases		**1,205,204**	1,210,783	**145,607**	(0.5)
Other depreciation, amortisation and operating leases		**177,853**	147,813	**21,487**	20.3
Aircraft maintenance		**442,898**	419,166	**53,509**	5.7
Commissions		**186,096**	256,834	**22,483**	(27.5)
Office and administration		**372,709**	344,758	**45,029**	8.1
Other		**313,754**	220,738	**37,906**	42.1
Total operating expenses		**5,458,167**	5,431,913	**659,429**	0.5

Consolidated Profit And Loss Account
For the six months ended 30 June 2002

	Note	Six months ended 30 June (Unaudited) 2002 RMB'000	(Unaudited) 2001 RMB'000	(Unaudited) 2002 US$'000 (note 14)	2002 vs 2001 Increase/ (Decrease) %
Operating profit		**491,177**	378,388	**59,342**	29.8
Interest expense, net		**(392,547)**	(423,901)	**(47,426)**	(7.4)
Exchange (loss)/gain, net		**(58,014)**	85,644	**(7,009)**	(167.7)
Other income, net		**41,724**	47,602	**5,041**	(12.3)
		82,340	87,733	**9,948**	(6.1)
Share of profit of an associated company		**959**	–	**116**	N/A
Profit before taxation		**83,299**	87,733	**10,064**	(5.1)
Taxation	3	**(7,201)**	(34,304)	**(870)**	(79.0)
Profit after taxation		**76,098**	53,429	**9,194**	42.4
Minority interests		**(50,583)**	16,899	**(6,111)**	(399.3)
Profit attributable to shareholders		**25,515**	70,328	**3,083**	(63.7)
Earnings per share	5	**RMB0.005**	RMB0.014	**US$0.001**	

Condensed Consolidated Balance Sheet

As at 30 June 2002

	Note	(Unaudited) 30 June 2002 RMB'000	(Audited) 31 December 2001 RMB'000	(Unaudited) 30 June 2002 US$'000 (note 14)
Goodwill and negative goodwill	7	**41,807**	42,909	**5,051**
Land use rights	8	**1,248,320**	1,231,505	**150,816**
Fixed assets	9	**19,827,170**	20,222,680	**2,395,425**
Construction in progress		**265,874**	347,406	**32,122**
Investment in an associated company		**110,120**	109,527	**13,304**
Advances for aircraft and flight equipment		**3,082,367**	1,141,576	**372,397**
Other non-current assets		**2,621,873**	2,480,325	**316,762**
Current assets				
Flight equipment spare parts less allowance for obsolescence		**501,477**	464,833	**60,586**
Trade receivables less allowance for doubtful accounts	10	**870,134**	785,834	**105,125**
Other receivables and prepayments		**833,309**	778,055	**100,676**
Short-term deposits with an associated company		**137,121**	281,362	**16,566**
Cash and bank balances		**1,603,261**	1,099,630	**193,699**
		3,945,302	3,409,714	**476,652**
Current liabilities				
Trade payables	11	**48,893**	48,117	**5,907**
Sales in advance of carriage		**621,146**	645,626	**75,044**
Other payables and accruals		**2,570,811**	2,294,329	**310,593**
Current portion of obligations under finance leases		**2,092,100**	1,935,672	**252,758**
Current portion of long-term bank loans		**458,478**	361,236	**55,391**
Short-term bank loans		**2,817,610**	1,287,642	**340,410**
		8,609,038	6,572,622	**1,040,103**
Net current liabilities		**(4,663,736)**	(3,162,908)	**(563,451)**
Total assets less current liabilities		**22,533,795**	22,413,020	**2,722,426**
Capital and reserves		**7,553,975**	7,638,794	**912,635**
Minority interests		**307,788**	257,205	**37,186**
Obligations under finance leases		**7,198,283**	7,935,679	**869,662**
Long-term bank loans		**5,798,767**	4,939,331	**700,580**
Other long-term liabilities		**1,674,982**	1,642,011	**202,363**
		22,533,795	22,413,020	**2,722,426**

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2002

(Unaudited)	Note	Share capital RMB'000	Retained profits RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2002		**4,866,950**	**1,539,859**	**1,231,985**	**7,638,794**
Consolidated profit attributable to shareholders		**–**	**25,515**	**–**	**25,515**
Unrealised losses on foreign currency forward contracts		**–**	**–**	**(12,995)**	**(12,995)**
Total recognised gains/(losses)		**–**	**25,515**	**(12,995)**	**12,520**
Dividends	**4**	**–**	**(97,339)**	**–**	**(97,339)**
At 30 June 2002		**4,866,950**	**1,468,035**	**1,218,990**	**7,553,975**
At 1 January 2001		4,866,950	1,098,847	1,223,227	7,189,024
Consolidated profit attributable to shareholders		–	70,328	–	70,328
Dividends	4	–	(97,339)	–	(97,339)
Transfer from retained profits to reserves	6	–	182,336	(182,336)	–
At 30 June 2001		4,866,950	1,254,172	1,040,891	7,162,013

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2002

(Unaudited)	Six months ended 30 June		
	2002 RMB'000	2001 RMB'000	**2002 US$'000**
			(note 14)
Net cash inflow from operating activities	**1,020,290**	1,079,402	**123,267**
Net cash outflow from investing activities	**(2,354,810)**	(657,356)	**(284,497)**
Net cash inflow/(outflow) from financing activities	**1,693,041**	(401,831)	**204,545**
Net cash inflow	**358,521**	20,215	**43,315**
Cash and cash equivalents at 1 January	**1,330,980**	1,422,891	**160,803**
Exchange adjustment	**25,881**	(22,651)	**3,127**
Cash and cash equivalents at 30 June	**1,715,382**	1,420,455	**207,245**

Analysis of the balances of cash and cash equivalents

	30 June 2002 RMB'000	30 June 2001 RMB'000	30 June 2002 US$'000 (note 14)
Cash and bank balances	**1,603,261**	1,317,617	**193,699**
Short-term deposits with an associated company	**137,121**	150,149	**16,566**
Less: short-term deposits with original maturity over three months	**(25,000)**	(47,311)	**(3,020)**
	1,715,382	1,420,455	**207,245**

Notes to the Consolidated Financial Statements

1. Basis of preparation and accounting policies

The unaudited consolidated interim financial statements comprise the consolidated financial statements of the Company and all its subsidiaries at 30 June 2002 and of their results for the six months ended 30 June 2002. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

The unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting". This basis of accounting differs in certain material respects from that used in the preparation of the Group's interim financial statements in the People's Republic of China ("PRC"), which are prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). Differences between PRC Accounting Regulations and IAS on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2002 and on the unaudited consolidated net assets at 30 June 2002 are set out in Section C.

In addition, IAS differs in certain material respects from the generally accepted accounting principles in the United States of America ("U.S. GAAP"). Differences between IAS and U.S. GAAP on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2002 and on the unaudited consolidated net assets at 30 June 2002 are set out in Section D.

The accounting polices used in the preparation of these unaudited consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2001.

2. Turnover

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

(Unaudited)	For the six months ended 30 June				
	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	Total RMB'000
2002					
Traffic revenues	**2,289,505**	**1,013,796**	**818,781**	**1,588,467**	**5,710,549**
Other operating revenues	**224,490**	**–**	**4,866**	**9,439**	**238,795**
Turnover	**2,513,995**	**1,013,796**	**823,647**	**1,597,906**	**5,949,344**
Operating (loss)/profit	**(132,392)**	**205,680**	**267,047**	**150,842**	**491,177**
2001					
Traffic revenues	2,318,758	1,102,030	758,392	1,393,617	5,572,797
Other operating revenues	237,504	–	–	–	237,504
Turnover	2,556,262	1,102,030	758,392	1,393,617	5,810,301
Operating (loss)/profit	(32,607)	278,942	226,174	(94,121)	378,388

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

3. Taxation

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

	(Unaudited) For the six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Provision for PRC income tax	**(17,517)**	(1)
Deferred taxation	**10,682**	(34,303)
Share of taxation attributable to an associated company	**(366)**	–
	(7,201)	(34,304)

As described in the annual audited financial statements for the year ended 31 December 2001, the Company's income tax rate has been reduced from 33% to 15% with effect from 1 July 2001.

Two major subsidiaries of the Company, namely China Cargo Airlines Ltd. and China Eastern Airlines Jiangsu Co. Ltd. are subject to a reduced income tax rate of 15% and the standard PRC income tax rate of 33% respectively.

(b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30 June 2002 as there exists double taxation relief between PRC and the corresponding jurisdictions (including Hong Kong).

4. Dividends

The dividends recognised in the six months ended 30 June 2002 represent the final dividend of RMB0.02 (2001: RMB0.02) per share totalled RMB97,339,000 (2001: RMB97,339,000) for the year ended 31 December 2001 proposed by the Board of Directors on 8 April 2002 and approved in the Annual General Meeting on 18 June 2002. The dividend payable is included in other payables and accruals in the balance sheet at 30 June 2002.

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

5. Earnings per share

The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders of RMB25,515,000 (2001: RMB70,328,000) and the weighted average of 4,866,950,000 (2001: 4,866,950,000) shares in issue during the period.

The Company has no dilutive potential ordinary shares.

6. Profit appropriation

No appropriations from retained profits were made to the statutory reserves during the six months ended 30 June 2002. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

During the six months ended 30 June 2001, certain new PRC accounting regulations became effective and the excess appropriations of reserves as a result of such changes are transferred from reserves to retained profits.

7. Goodwill and negative goodwill

	(Unaudited) RMB'000
Cost	
At 1 January 2002 and 30 June 2002	**57,860**
Accumulated amortisation	
At 1 January 2002	**14,951**
Charge for the period	**1,102**
At 30 June 2002	**16,053**
Net book value at 30 June 2002	**41,807**
Net book value at 31 December 2001	**42,909**

8. Land use rights

	(Unaudited) 30 June 2002 RMB'000	(Audited) 31 December 2001 RMB'000
Cost		
At beginning of period	**1,309,568**	892,060
Additions	**31,845**	–
Acquisition of a passenger carriage business	**–**	56,024
Transfer from construction in progress	**–**	370,181
Change in acquisition cost	**(1,169)**	(8,697)
At end of period	**1,340,244**	1,309,568
Accumulated amortisation		
At beginning of period	**78,063**	51,448
Charge for the period	**13,861**	26,615
At end of period	**91,924**	78,063
Net book value at end of period	**1,248,320**	1,231,505

9. Fixed assets

(Unaudited)	Aircraft and flight equipment RMB'000	Buildings, other fixed assets and equipment RMB'000	Total RMB'000
Valuation			
At 1 January 2002	24,258,171	3,468,222	27,726,393
Transfer from construction in progress	–	181,817	181,817
Additions	157,782	107,884	265,666
Disposals	–	(35,096)	(35,096)
At 30 June 2002	24,415,953	3,722,827	28,138,780
Accumulated depreciation			
At 1 January 2002	6,630,476	873,237	7,503,713
Charge for the period	683,574	140,457	824,031
Disposals	–	(16,134)	(16,134)
At 30 June 2002	7,314,050	997,560	8,311,610
Net book value at 30 June 2002	17,101,903	2,725,267	19,827,170
Net book value at 31 December 2001	17,627,695	2,594,985	20,222,680

10. Trade receivables less allowance for doubtful accounts

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

The aging analysis of the trade receivables is as follows:

	(Unaudited) 30 June 2002 RMB'000	(Audited) 31 December 2001 RMB'000
Less than 31 days	**657,339**	525,006
31 to 60 days	**76,738**	91,531
61 to 90 days	**34,103**	28,384
Over 90 days	**101,954**	140,913
	870,134	785,834

11. Trade payables

As at 30 June 2002 and 31 December 2001, all trade payables were current balances aged under 30 days.

12. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	(Unaudited) 30 June 2002 RMB'000	(Audited) 31 December 2001 RMB'000
Authorised and contracted for:		
– Aircraft and related equipment	**14,046,984**	9,186,803
– Other	**289,380**	437,820
	14,336,364	9,624,623
Authorised but not contracted for:		
– Aircraft and related equipment	**–**	–
– Other	**1,170,413**	980,289
	1,170,413	980,289
	15,506,777	10,604,912

The above commitments mainly include amounts for the acquisitions of 20 A-320 Airbuses, five A-340 Airbuses and four B737 aircraft for delivery between 2002 and 2005.

(b) Operating lease commitments

The Group had commitments under operating leases to make future minimum lease payments as follows:

	(Unaudited) 30 June 2002		(Audited) 31 December 2001	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Within one year	**983,808**	**49,505**	1,013,629	40,462
In the second year	**968,092**	**19,511**	1,373,539	16,756
In the third to fifth year inclusive	**2,641,134**	**28,790**	3,430,504	30,638
After the fifth year	**2,730,046**	**7,752**	4,890,768	14,090
	7,323,080	**105,558**	10,708,440	101,946

(c) Investment in GE Engine Services (Xiamen) Co., Ltd.

In May 2001, the Group entered into an agreement with General Electric ("GE"), an unrelated third party, to obtain a 30% interest in GE Engine Services (Xiamen) Co., Ltd. ("GE Xiamen") at a consideration of US$3.6 million. The Group is not required to settle the consideration immediately and the ownership of the 30% interest in GE Xiamen is conditional upon the Group's fulfilment of a commitment to deliver to GE Xiamen annually a specified percentage of its CFM 56 engines for repair services for a period of 10 years. The Group will be entitled to dividends from GE Xiamen and the dividends received will be used to set off against the consideration payable to GE if this commitment is fulfilled. Up to 30 June 2002, GE Xiamen has not yet commenced its provision of repair services for CFM 56 engines, and hence, the Group has not been required to fulfil its commitment.

(d) Contingent liabilities

At 30 June 2002, the Group provided a guarantee to a bank in respect of bank facilities granted to Nanjing Lu Kou International Airport Company, a third party, amounting to RMB150,000,000 (2001: RMB150,000,000).

13. Subsequent events

On 16 August 2002, the Company entered into an agreement with Wuhan Municipality State-owned Assets Management Committee Office ("Wuhan State-owned Assets Office") and two other independent third parties to establish a limited liability company, China Eastern Airlines Wuhan Limited ("CEAWL"). The registered capital of CEAWL is RMB600 million, of which 40% is held by the Company and 40% by the Wuhan State-owned Assets Office. The Company contributed RMB240 million in cash corresponding to its equity interest held and Wuhan State-owned Assets Office made its capital contributions by injecting all net assets of Wuhan Airlines Company at 31 December 2001 based on a valuation performed by an independent valuer.

14. Convenient translation

The unaudited consolidated financial statements have been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into United States dollars ("US$") solely for convenience have been made at the rate of US$1.00 to RMB8.2771 being the average of the buying and selling rates as quoted by People's Bank of China at the close of business on 30 June 2002. No representation is made that the RMB amounts could have been or could be converted into US$ at that rate or at any other rate on 30 June 2002 or any other date.

B. Prepared in accordance with the People's Republic of China (the "PRC") Accounting Regulations

Consolidated Balance Sheet

	(Unaudited) 30 June 2002 RMB'000	(Audited) 31 December 2001 RMB'000
Assets		
Total Current Assets	**6,984,174**	6,426,407
Net Long-term Investments	**763,203**	710,328
Total Fixed Assets	**20,236,841**	18,712,608
Total Intangible Assets & Other Assets	**1,487,205**	1,499,352
Deferred Tax Debits	**129,302**	83,109
Total Assets	**29,600,725**	27,431,804
Liabilities & Shareholders' Equity		
Total Current Liabilities	**9,071,457**	8,371,139
Total Long-term Liabilities	**13,750,675**	12,437,501
Deferred Tax Credits	**158,818**	83,841
Total Liabilities	**22,980,950**	20,892,481
Minority Interests	**362,387**	336,095
Total Shareholders' Equity	**6,257,388**	6,203,229
Total Liabilities & Shareholders' Equity	**29,600,725**	27,431,805

Consolidated Profit and Loss Account

Items	(Unaudited) For the six months ended 30 June 2002 RMB'000	2001 RMB'000
I. Revenue from Main Operations:	**6,270,536**	6,134,341
Less: Revenue from Civil Air Infrastructure Construction Fund	**204,075**	204,263
Revenue from Main Operations, net	**6,066,461**	5,930,078
Less: Main Operating Cost	**4,655,981**	4,993,822
Business Taxes and Surtaxes	**148,161**	146,398
II. Profit from Main Operations	**1,262,319**	789,858
Add: Revenue from Other Operations	**228,772**	238,390
Less: Operating Expenses	**602,424**	651,966
General & Administrative Expenses	**321,679**	285,331
Financial Expenses	**470,144**	366,325
III. Profit/(Loss) from Operations	**96,844**	(275,374)
Add: Income from Investment	**26,677**	31,298
Subsidy Income	**13,610**	–
Non-operating Income	**1,152**	6,323
Less: Non-operating Expenses	**11,948**	29,927
IV. Total Profit/(Loss)	**126,335**	(267,681)
Less: Income Tax	**46,340**	53
Minority Interest (for consolidated statements)	**26,293**	(25,412)
V. Net Profit/(Loss)	**53,702**	(242,322)

Notes (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 its 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.

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 invested 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 eliminated on consolidation.

(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.

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 unrecoverable 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 of 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%

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 cost 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 investee entities. The cost method is applied wherever the Company's investment is less than 20% of the voting capital of the investee 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 investee enterprise is recorded in < Equity Investment Difference > and usually amortized over a period of 10 years.

(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 for that investment. The remaining difference shall be recorded as investment loss of 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 RMB2,000 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%

(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 obsoleteness, 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.

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 cost and amortized over the estimated beneficial period.

16. Overhaul Expenses of Aircraft and Engines

Pursuant to the related regulations of the Finance Dept. 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 applicable interest rate and length of time during which the Company's cash is used by others while royalty is measured according to the period and method of charging as stipulated in the relevant contract or agreement.

19. Income Tax

Tax effects of taxable temporary timing differences are recognized as deferred income tax liabilities. Tax effects of deductible temporary timing differences are recognized as deferred income tax assets.

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

(1) Details and reason of changes in accounting policies:
In order to better reflect the timing difference between accounting profit and taxable income, the accounting treatment for income tax is changed from tax payable method to the method that tax effects of timing differences are recognized as deferred income tax assets or liabilities.

(2) Amount of effect resulting from the change in accounting policy:
The above policy change increased the accrual of income tax by RMB28,823,600, thus reducing the net profit for the first half of 2002 by RMB28,823,600.

(3) Details and reason of changes in accounting estimates:
The Board of Directors made a resolution on Jan 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 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 resulting from the change in accounting estimates:
The profit for the first half of 2002 is increased by RMB 428,350,000 due to the change in accounting estimates mentioned above.

(5) Details, correction amount and influence of significant accounting errors

a. The Company handed in a total of RMB14,364,200 this year as supplementary public housing fund for 2001, thus reducing the profit of 2001 by RMB14,364,200.

b. The Company handed in a total of RMB17,250,000 this year as medical insurance of 2001, thus reducing the profit of 2001 by RMB17,250,000.

c. The Company has collected back the proceeds of apartments sold to staff in former years. The amount collected back is lower than the estimated amount, thus affecting the undistributed profit at the beginning of year of 2001 by RMB6,530,500.

C. Significant Differences between PRC Accounting Regulations and IAS

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

Consolidated profit/(loss) attributable to shareholders

	For the six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
As stated under PRC Accounting Regulations	**53,702**	(242,322)
Impact of IAS and other adjustments:		
Difference in depreciation charges of flight equipment due to different useful lives	**118,441**	81,019
Difference in depreciation charges and gains on disposals of aircraft and engines due to different useful lives	**(108,483)**	295,786
Provision for overhaul expenses	**(9,988)**	(30,530)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	**5,494**	3,597
Accrual of net interest income on subleases	**–**	(472)
Provision for post-retirement benefits	**(23,655)**	(55,443)
Loss on sale of staff quarters	**(9,768)**	–
Amortisation of goodwill	**(2,828)**	(2,828)
Amortisation of negative goodwill	**1,726**	287
Interest accrued on instalment payable for acquisition of a passenger carriage business	**(5,737)**	(956)
Other	**(32,528)**	50,686
Tax adjustments	**39,139**	(28,496)
As stated under IAS	**25,515**	70,328

Consolidated net assets

	30 June 2002 RMB'000	31 December 2001 RMB'000
As stated under PRC Accounting Regulations	**6,257,388**	6,203,229
Impact of IAS and other adjustments:		
Difference in accumulated depreciation charges of flight equipment due to different useful lives	**698,325**	579,884
Difference in accumulated depreciation charges and gains/losses on disposals of aircraft and engines due to different useful lives	**1,984,467**	2,092,950
Provision for overhaul expenses	**(682,521)**	(672,533)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	**(56,329)**	(61,823)
Provision for post-retirement benefits	**(544,718)**	(521,063)
Disposition charge of flight equipment of aircraft already disposed of	**(38,750)**	(38,750)
Loss on sale of staff quarters	**24,373**	34,141
Provision for staff quarter allowance	**(80,179)**	(80,179)
Goodwill	**93,312**	96,140
Negative goodwill	**(51,505)**	(53,231)
Time value on instalment payable for acquisition of a passenger carriage business	**42,815**	48,552
Unrealised (loss)/gain on foreign currency forwards under hedge accounting	**(7,599)**	5,396
Timing differences in the recognition of dividends	**–**	97,339
Other	**104,855**	137,840
Tax adjustments	**(189,959)**	(229,098)
As stated under IAS	**7,553,975**	7,638,794

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

Differences between IAS and U.S. GAAP, which have significant effects on the unaudited consolidated profit attributable to shareholders and the unaudited consolidated net assets are summarised as follows:

Consolidated profit attributable to shareholders

	For the six months ended 30 June		
	2002 RMB'000	2001 RMB'000	**2002 US$'000***
As stated under IAS	**25,515**	70,328	**3,083**
U.S. GAAP adjustments:			
Reversal of additional depreciation charges arising from revaluation surplus of fixed assets	**43,728**	42,938	**5,283**
Effect of transfer of aircraft from the Company to a non-wholly owned subsidiary	**(28,288)**	–	**(3,418)**
Reversal of amortisation charge on land use rights	**4,210**	4,210	**509**
Reversal of amortisation charge on goodwill	**2,828**	2,828	**342**
Sales and leaseback of aircraft	**13,117**	13,076	**1,585**
Post-retirement benefits	**(5,354)**	21,233	**(647)**
Deferred tax effect on U.S. GAAP adjustments	**(4,536)**	(27,814)	**(548)**
As stated under U.S. GAAP	**51,220**	126,799	**6,189**
Basic and fully diluted earnings per share under U.S. GAAP	**RMB0.011**	RMB0.026	**US$0.001**
Basic and fully diluted earnings per American Depository Share ("ADS") under U.S. GAAP	**RMB1.05**	RMB2.61	**US$0.127**

Consolidated net assets

	30 June 2002 RMB'000	31 December 2001 RMB'000	30 June 2002 US$'000*
As stated under IAS	**7,553,975**	7,638,794	**912,635**
U.S. GAAP adjustments:			
Reversal of revaluation surplus of fixed assets	**(977,240)**	(977,240)	**(118,066)**
Reversal of valuation of land use rights	**(420,999)**	(420,999)	**(50,863)**
Goodwill written off to equity	**(113,105)**	(113,105)	**(13,665)**
Reversal of differences in accumulated depreciation charges and gains/losses on disposals arising from revaluation surplus of fixed assets	**658,539**	643,099	**79,562**
Reversal of accumulated amortisation of land use rights	**50,520**	46,310	**6,104**
Reversal of accumulated amortisation of goodwill	**19,793**	16,965	**2,391**
Sales and leaseback of aircraft	**(27,616)**	(40,733)	**(3,336)**
Post-retirement benefits	**136,863**	142,217	**16,535**
Deferred tax effect on U.S. GAAP adjustments	**100,988**	105,524	**12,201**
As stated under U.S. GAAP	**6,981,718**	7,040,832	**843,498**

* Translations of amounts from RMB into US$ have been made at the rate of US$1.00 to RMB8.2771 being the average of the buying and selling rates as quoted by People's Bank of China at the close of business on 30 June 2002.

Selected Airline Operating Data

	For the six months ended 30 June		
	2002	2001	Change
Capacity			
ATK (available tonne-kilometers) (millions)	**2,077.29**	2,046.07	1.53%
- Domestic routes	**818.69**	735.74	11.27%
- International routes	**1,051.00**	1,092.57	-3.80%
- Hong Kong routes	**207.60**	217.76	-4.67%
ASK (available seat-kilometers) (millions)	**13,540.97**	12,373.33	9.44%
- Domestic routes	**6,610.94**	6,082.72	8.68%
- International routes	**5,163.68**	4,557.68	13.30%
- Hong Kong routes	**1,766.35**	1,732.93	1.93%

	For the six months ended 30 June		
	2002	2001	Change
AFTK (available freight tonne-kilometers) (millions)	**858.62**	932.47	-7.92%
- Domestic routes	**223.71**	188.30	18.81%
- International routes	**586.28**	682.38	-14.08%
- Hong Kong routes	**48.63**	61.80	-21.30%
Hours flown (thousands)	**113.40**	105.10	7.90%
Traffic			
RTK (revenue tonne-kilometers) (millions)	**1,219.61**	1,126.11	8.30%
- Domestic routes	**454.43**	384.24	18.27%
- International routes	**648.04**	629.04	3.02%
- Hong Kong routes	**117.14**	112.83	3.82%
RPK (revenue passenger-kilometers) (millions)	**8,506.25**	7,449.29	14.19%
- Domestic routes	**3,964.53**	3,412.77	16.17%
- International routes	**3,497.52**	3,040.61	15.03%
- Hong Kong routes	**1,044.20**	995.90	4.85%
RPTK (revenue passenger tonne-kilometers) (millions)	**761.31**	666.90	14.16%
- Domestic routes	**354.79**	305.44	16.16%
- International routes	**313.09**	272.42	14.93%
- Hong Kong routes	**93.43**	89.04	4.93%
RFTK (revenue freight tonne-kilometers) (millions)	**458.30**	459.21	-0.20%
- Domestic routes	**99.65**	78.80	26.46%
- International routes	**334.94**	356.61	-6.08%
- Hong Kong routes	**23.71**	23.80	-0.38%
Number of passengers carried (thousands)	**5,440.88**	4,826.31	12.73%
- Domestic routes	**3,635.81**	3,231.98	12.49%
- International routes	**1,014.97**	843.88	20.27%
- Hong Kong routes	**790.10**	750.45	5.28%
Weight of freights carried (kg) (millions)	**165.18**	139.13	18.72%
- Domestic routes	**84.34**	66.72	26.41%
- International routes	**62.25**	55.14	12.89%
- Hong Kong routes	**18.59**	17.27	7.64%
Load factor			
Overall load factor (%)	**58.71**	55.04	3.67 points
- Domestic routes	**55.51**	52.22	3.28 points
- International routes	**61.66**	57.57	4.09 points
- Hong Kong routes	**56.43**	51.81	4.61 points

	For the six months ended 30 June		
	2002	2001	Change
Passenger load factor (%)	**62.82**	60.20	2.61 points
- Domestic routes	**59.97**	56.11	3.86 points
- International routes	**67.73**	66.71	1.02 points
- Hong Kong routes	**59.12**	57.47	1.65 points
Freight load factor (%)	**53.38**	49.25	4.13 points
- Domestic routes	**44.54**	41.85	2.69 points
- International routes	**57.13**	52.26	4.87 points
- Hong Kong routes	**48.75**	38.51	10.24 points
Break-even load factor (%)	**56.12**	53.66	2.46 points
Yield and costs			
Revenue tonne-kilometers yield (RMB)	**4.68**	4.95	-5.36%
- Domestic routes	**5.04**	6.03	-16.51%
- International routes	**3.71**	3.42	8.58%
- Hong Kong routes	**8.65**	9.77	-11.39%
Passenger-kilometers yield (RMB)	**0.54**	0.62	-12.02%
- Domestic routes	**0.55**	0.65	-14.75%
- International routes	**0.44**	0.47	-4.37%
- Hong Kong routes	**0.85**	1.00	-14.12%
Freight tonne-kilometers yield (RMB)	**2.35**	2.09	12.31%
- Domestic routes	**1.05**	1.43	-26.56%
- International routes	**2.54**	2.07	22.90%
- Hong Kong routes	**5.11**	4.66	9.82%
Available tonne-kilometers unit cost (RMB)	**2.63**	2.66	-1.03%

Management Discussion And Analysis

Review of operations

In terms of the total traffic volume and passenger traffic volume for the year 2001, the Group is one of the three largest airline companies in China and is a principal airline company serving Shanghai— an economic, trade and financial center of China. As at 30 June 2002, the Group operated a total of 209 routes, of which 149 were domestic routes, 13 were Hong Kong routes and 47 were international routes (including 7 international cargo routes). The Group operated 2,900 scheduled flights per week, serving 75 foreign and domestic cities. At present, the Group is operating 70 aircraft, including 67 passenger jet aircraft with a capacity of over 100 seats and 3 jet freighters.

During the first half of 2002, the global economy showed signs of recovery and continued the trend towards globalization. China's policy of stimulating domestic demand had achieved positive results, as the domestic economy continued to grow. For the first half of 2002, the growth rate for the domestic economy reached 7.8%, while the growth rate of gross domestic product (GDP) of Shanghai reached more than 10% for the tenth consecutive year. Although the international and domestic economic conditions are favourable to the development of the air transport industry, the Group faces both opportunities and challenges in its development.

The cornerstone for the survival and development of an air transport enterprise is to ensure flight safety. Due to the occurrence of air traffic accidents in China and other countries in the first half of 2002, airlines in China encountered a noticeable slowdown in passenger traffic in May and June of 2002. In order to ensure flight safety, the Group has extensively developed a set of stringent inspection procedures and strengthened the safety control, and has cancelled some nighttime "red-eye" flights and extra charter flights, which have effectively assured the safety of the Group's scheduled flights.

During the time of the World Cup 2002, in addition to scheduled flights on Korean and Japanese routes, the Group had added extra flights and charter flights departing from Shanghai and Yantai to Korea. However, market demand was not as high as expected, resulting in a relatively low passenger load factor of the Company for the month of June 2002, and the overall performance of the Company for the first half of 2002 was thereby adversely affected.

In terms of service quality, the Company was awarded the first prize in an event organized by the Civil Aviation Association last year, which is called "Passengers' Appraisal of Civil Aviation". Building on that foundation, the Company has taken the lead to develop a trial system for ISO9000 Certification this year, introducing individualized and friendly services targeted at various customer groups with a view to providing superior services specialized with the Group's character.

In the midst of a sound macroeconomic environment, demand for air transport has increased rapidly. The Company has captured this business opportunity to launch more international routes, including those between Shanghai and Delhi, Beijing and Delhi, Beijing and Tokyo as well as Jinan and Seoul. The Group also continued to enter into code sharing arrangements and special prorate agreements with other airlines to broaden the Group's route network.

In the first half of 2002, the Group's main operation base, Shanghai, experienced a steady growth in its economy over the same period last year, and demand for air transport is growing significantly. Since the establishment of the Group, the Group has continued to significantly contribute to the development of Shanghai's economy. At present, the number of the Group's flights taking off from and landing in Shanghai exceeds 60% of the total number of the Group's fights actually flown. In addition, the Group had, during the first half of 2002, successfully operated flights for various conferences held in Shanghai, including the annual general meetings of the Asian Development Bank and the Association of Asian Parliaments for Peace. The Group has also effectively enhanced its position in the international civil aviation industry significantly by hosting the 58th Annual General Meeting of the International Air Transportation Association.

As at 30 June 2002, traffic volume of the Group totalled 1.22 billion tonne-kilometers, an increase of 8.3% over the same period last year, while total traffic revenues amounted to RMB5,711 million, an increase of 2.47% over the same period last year. The average aircraft daily utilization was 8.9 hours, a decrease of 0.2 hour from the same period last year.

For the first half of 2002, the total passenger traffic volume was 8.506 billion passenger-kilometers, an increase of 14.19% over the same period last year, while total passenger revenues amounted to RMB4,633 million (accounting for 81.12% of the Group's traffic revenues), an increase of 0.47% over the same period last year.

Domestic passenger traffic volume reached 3.965 billion passenger-kilometers, an increase of 16.17% over the same period last year. Passenger load factor was increased by 3.86% to 59.97%. Revenues generated from traveling passengers over domestic routes amounted to RMB2,185 million, a decrease of 0.96% from the same period last year, accounting for 47.16% of the Group's passenger revenues. The average domestic passenger-kilometers yield was RMB0.55 during the first half of 2002, a decrease of 14.75% from the same period last year. Such decrease was mainly due to the cancellation of the fuel surcharge on domestic routes commencing from earlier this year, and the adoption of a settlement policy under which agent commissions are netted off when recognizing revenues.

International passenger traffic volume reached 3.498 billion passenger-kilometers, an increase of 15.03% over the same period last year, and passenger load factor was 67.73%. International passenger revenues were RMB1,555 million, an increase of 9.99% over the same period last year, accounting for 33.58% of the Group's passenger revenues. The average international passenger-kilometers yield was RMB0.44 during the first half of 2002, a decrease of 4.37% from the same period last year, principally due to sales promotion for the Japan routes conducted during the first half of 2002 to maintain market share.

Passenger traffic volume on Hong Kong routes amounted to 1.044 billion passenger-kilometers, an increase of 4.85% over the same period last year. Although the Group's capacity in the same period only increased 1.93%, passenger load factor increased by 1.65% to 59.12%. Hong Kong passenger revenues were RMB893 million, a decrease of 9.95% over the same period last year, accounting for 19.27% of the Group's passenger revenues. The average passenger-kilometers yield was RMB0.85 during the first half of 2002, a decrease of 14.12% from the same period last year, mainly due to pressure on the Company's air fares arising from the expansion of capacity by the Group's competitors.

Since the beginning of 2002 and with China's accession to the World Trade Organization, the volume of foreign trade has experienced more rapid growth. For the first half of 2002, the volume of imports and exports achieved an increase of 12.3% over the same period last year. Although there was a lack of cargo capacity due to overhaul of freighters, through the effective sales and operations of China Cargo Airlines Limited, a subsidiary of the Company, cargo traffic volume of the Company remained the same as that for the same period last year. The Group's cargo traffic volume for the first half of 2002 reached 458 million tonne-kilometers. Cargo revenues were RMB1,078 million, accounting for 18.88% of the Group's traffic revenues and representing an increase of 12.09% over the same period last year. The cargo tonne-kilometers yield was increased by 12.31% over the same period last year, mainly due to the gradual recovery of the global economy and the increase in demand for cargo traffic.

The Group's total operating costs reached RMB5,458 million, an increase of 0.48% over the same period last year.

The total aircraft take-off and landing fees amounted to RMB883 million, an increase of 6.91% over the same period last year, which was mainly due to the expansion of the Group's scale of operation and the increase in the number of scheduled flights. At the same time, the average take-off and landing fee per flight was lowered by 4.25% through the Group's reasonable re-allocation of aircraft models according to market demand.

The total aircraft fuel expenses amounted to RMB1,125 million, a decrease of 13.25% from the same period last year, even though fuel consumption had increased by 6.54%. This was mainly due to the stabilization of international crude oil prices at a relatively low level, and, as a result, during the first half of 2002, the weighted average costs of aircraft fuel consumption on domestic routes and international routes decreased by 16.00% and 25.39%, respectively.

The total maintenance costs were RMB443 million, an increase of 5.66% over the same period last year, which was mainly due to maintenance and replacement of engines, for aircraft purchased by the Company or for aircraft acquired by the Company under finance leases, during the first half of 2002. In accordance with the IAS, overhaul expenses for aircraft purchased or acquired under finance leases are, when incurred, charged against the operating revenues. Therefore, the Company's maintenance expenses will in future remain to be subject to fluctuations.

Total commission expenses amounted to RMB186 million, a decrease of 27.54% from the same period last year, which was mainly due to the adoption by the Group of a settlement policy under which agent commissions are netted off when recognizing revenues.

Due to the continued appreciation of the exchange rate of Euro and Japanese Yen to Renminbi, during the first half of 2002, net foreign exchange loss arising from assets and debts of the Group denominated and settled in foreign currency during such period amounted to approximately RMB58 million.

During the six months ended 30 June 2002, the Group's profit attributable to shareholders under IAS was RMB25.5 million, a decrease of 63.72% from the same period last year, and the earnings per share were RMB0.005.

Liquidity and capital resources

The Group finances its working capital requirements through a combination of funds generated from its business operations and short-term bank loans. As at 30 June 2002, the Group had cash and cash equivalents of RMB1,715 million, a substantial portion of which were denominated in Renminbi. Net cash generated from the operation of the Group's business activities in the first half of 2002 amounted to RMB1,020 million, a decrease of 5.48% from the same period last year.

The Group's primary cash requirements in the first half of 2002 were for acquisitions of, and improvements on, aircraft and flight equipments and for settlement and payments of related indebtedness. Net cash used in investing activities by the Group in the first half of 2002 was RMB2,355 million.

Net cash generated from financing activities of the Group was RMB1,693 million. Such cash was primarily generated from long-term and short-term bank loans.

The Group generally operates with a working capital deficit. As at 30 June 2002, the Group's current liabilities exceeded the Group's current assets by RMB4,664 million, and the long-term debt to equity ratio was 1.94. The Group had obtained, and believes that it will continue to be able to obtain, short-term bank loans from domestic banks in China or foreign banks to satisfy its working capital requirements.

Pledges on assets and contingent liabilities

The Group generally pledges its assets to secure its obligations under finance leases and bank loans for acquisitions of aircraft. As at 30 June 2002, the Group's total carrying value of assets pledged was RMB5,287 million, representing an increase of 1.36% over that of RMB5,216 million at the end of 2001.

Employees

As at 30 June 2002, the Group had approximately 14,600 employees, a majority of whom were working in China. The wages of the Group's employees consist of basic salaries and bonuses. The Group was never involved in any labour-related disputes with its employees, nor has it experienced any substantial reduction in the number of its employees. The Group had not encountered any difficulty in recruiting new employees.

Except for the information disclosed herein, the information in relation to other matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") relating to the Group has not changed materially from the information disclosed in the Company's 2001 annual report.

Outlook for the second half of 2002

The Group would like to caution readers that this interim report contains certain forward-looking statements, including those regarding the Company's future strategies and business plans for the second half of 2002 and the international and domestic economies and aviation industries. These forward-looking statements are subject to significant uncertainties and risks.

The Group believes that, despite the positive developments in the global economy, the international economic environment still faces various uncertainties. The recovery of the U.S. economy is not yet certain. It is also uncertain whether the Euro countries can achieve rapid economic growth. In addition, the Japanese economy still faces different contradictions and difficulties. In comparison, due to the continued implementation by the PRC Government of positive fiscal policies and steady monetary policies, the demand of the Chinese market is expected to continue to maintain steady growth, and it is optimistic that GDP will maintain an annual growth rate of over 7%. The Group plans to purchase four Boeing B737-700 aircraft under finance leases and to acquire, under operating leases, two A319 Airbus aircraft and two Boeing B737-700 mid-size passenger aircraft, all of such aircraft are scheduled to be delivered and to commence operation during the second half of 2002. The Group believes that it will benefit from the continuing growth in the air transport market in China.

After China's accession into the World Trade Organization, China has speeded up reform on monopolizing industries and prospective mergers, acquisitions and restructuring of competitive industries, and has steadily pursued strategic restructuring of the air transport industry to enhance the competitiveness of airlines in China. The proposal pursuant to which Eastern Air Group Company, the holding company of the Company, is proposed to undergo a merger and restructuring with China Yunan Airlines and China Northwest Airlines has been approved by the State Council. The Company is not, and has not been, significantly affected by such proposed restructuring. The Company will also continue to select regional airlines with strengths that would complement the Company's businesses as potential alliance partners in order to establish a more comprehensive domestic and international route network and increase its share of the domestic market.

The *Regulations on Foreign Investment in Civil Aviation* issued by the Civil Aviation Administration of China, the Ministry of Foreign Trade and Economic Cooperation and the State Development Planning Commission, and approved by the State Council of the PRC, became effective since 1 August 2002. These Regulations were formulated in order to further open China's civil aviation industry to foreign investment. The original 35%-restriction on the proportion of foreign investment in any public air transport enterprise in the PRC has now been replaced by the requirement that the Chinese party shall have a majority and controlling shareholding interest and the equity interest held by any single foreign investor (including its affiliates) is restricted to a maximum of 25% in such an enterprise. The Company is exploring optimal financing arrangements with a view to, in compliance with all laws and regulations as are applicable to the Company, introducing foreign investment into the Company, thereby introducing advanced mechanisms, technologies, management skills and services to improve its route network and expand its market share.

Since the beginning of 2002, the Civil Aviation Administration of China has strengthened its macroeconomic policies for the domestic air transport market in China to control and regulate capacity growth at an optimum level, maintain the standard ticket price policy, introduce judicial measures to regulate the ticket-sales and improve the environment for the operation of domestic airlines. In addition, China's accession to the World Trade Organization has not only brought to domestic airline industry such advantages as reducing aircraft fuel costs and the amount of import duties for importing aircraft materials, the introduction of a computerized seat reservation system for civil aviation and the opening up of aircraft maintenance to foreign investment are expected to result in a reduction in the unit operating cost of the Company.

In light of the current market environment and the Group's present conditions, the Group will, during the second half of 2002, endeavour to ensure flight safety, expand its market share and improve its level of income. In particular, the Company will:

1. explore and develop routes that have higher potential, arrange for reasonable allocation of the Company's travel capacity, further improve the Company's route network and capacity settings, and, in particular, improve coordination of flight schedules for the two airports in Shanghai;

2. capture the opportunities presented by China's accession to the World Trade Organization to perfect and strengthen the Company's route network through cooperation with foreign airlines by means of implementing such arrangements as code sharing and special prorate agreements;

3. positively pursue restructuring opportunities in order to achieve economies of scale, improve and develop the Company's sales and route network;

4. take advantage of the opportunities offered by the *Regulations on Foreign Investment in Civil Aviation* and steadily explore cooperation opportunities with foreign strategic investors;

5. improve the level of management of the Group, closely examine and approve investment plans, strengthen centralized financial management and lower operating costs and expenses; and

6. expand the scope of localized services, promote individualized services and introduce one-ticket services for passengers traveling on Hong Kong routes whereby the passengers can enjoy services of other airlines by using one ticket to check-in all the way through to their ultimate destinations.

Fleet Planning

As at 30 June 2002, details of aircraft on order which is scheduled to be delivered are set out as follows:

Year to be delivered	Type of aircraft	Number of aircraft
Second half of 2002	A319	2
	B737-700	6
2003	A320	10
	A340-600	3
	B737-700	5
2004	A320	5
	A340-600	2
2005	A320	5

As at the date hereof, the Directors are not aware of any aircraft which is subject to options exercisable by the Company during a period of not less than 12 months from 30 June 2002.

Material Matters

1. Dividends

The Board of Directors does not recommend payment of interim dividend for the six months ended 30 June 2002.

2. Share capital

There was no change in the Company's share capital since 31 December 2001. As at 30 June 2002, the Company's share capital structure was as follows:

	Number of shares	Approximate percentage (%)
A shares		
Unlisted State-owned legal person shares	3,000,000,000	61.64
Listed shares	300,000,000	6.17
H shares	1,566,950,000	32.19
Total number of shares	4,866,950,000	100.00

3. Substantial shareholders

As at 30 June 2002, the following shareholders held 10% or more of any class of the issued share capital of the Company:

	Number of shares held	Approximate percentage of shareholding (%)
Eastern Air Group Company	3,000,000,000	61.64
HKSCC Nominees Limited	1,453,053,999	29.86

The above interests and the relevant information were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the *Securities (Disclosure of Interests) Ordinance* (the "SDI Ordinance").

Save as disclosed above, the Directors are not aware of any person (other than the Directors, chief executives, Supervisors or senior management of the Company) who, as at 30 June 2002, was interested in 10% or more of any class of the issued share capital of the Company which was required to be recorded in the register of interests of the Company pursuant to Section 16(1) of the SDI Ordinance.

4. Shareholding interests of the Directors, chief executives, Supervisors and senior management of the Company

As at 30 June 2002, the shareholding interests of the Directors, chief executives, Supervisors and senior management of the Company are set out as follows:

Name	Position	Number of A shares held
Ye Yigan	Chairman of the Board of Directors	0
Liu Shaoyong	Director, President	0
Wan Mingwu	Director, Vice President	0
Cao Jianxiong	Director	2,800
Zhong Xiong	Director	2,800
Chen Quanxin	Director	2,800

Name	Position	Number of A shares held
Wu Baiwang	Director	0
Zhou Ruijin	Independent Non-executive Director	0
Gong Haocheng	Independent Non-executive Director	0
Hu Honggao	Independent Non-executive Director	0
Peter Lok	Independent Non-executive Director	0
Li Wenxin	Chairman of the Supervisory Committee	0
Ba Shengji	Supervisor	2,800
Zhou Rongcai	Supervisor	0
Yang Jie	Supervisor	0
Liu Jiashun	Supervisor	0
Wu Yulin	Vice President	2,800
Wu Jiuhong	Vice President	0
Yang Xu	Vice President	0
Fan Ru	Chief Pilot	2,800
Luo Weide	Chief Accountant	0
Luo Zhuping	Company Secretary	2,800

Except as disclosed above, as at 30 June 2002, none of the Directors, chief executives, Supervisors and senior management of the Company and their associates had any beneficial interest in the issued share capital or debt securities of the Company and/or any of its associated corporations (within the meaning as defined in the SDI Ordinance) which was required to be entered into the register of interests required to be maintained by the Company pursuant to Section 29 of the SDI Ordinance or which was required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules.

During the six months ended 30 June 2002 and as at 30 June 2002, none of the Directors, chief executives, Supervisors and senior management of the Company and any of their spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

5. Repurchase, sale or redemption of securities

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of its securities (the word "securities" shall have the meaning ascribed thereto in paragraph 1 of Part I of Appendix 7 to the Listing Rules).

6. Compliance with the Code of Best Practice

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

7. Material litigation and arbitration

The Group was not involved in any material litigation or arbitration in the first half of 2002.

8. Waiver from compliance with the Listing Rules

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Subsequent events

In order to expand the Company's domestic market share, to strengthen its domestic aviation network and to enhance the Company's competitiveness in the domestic aviation industry, after long discussions and negotiations, the Company has actively pursued and has accomplished the work relating to the establishment of China Eastern Airlines Wuhan Limited, details of which are set out in the announcements issued by the Company dated 19 March 2002 and 16 August 2002.

10. Others

During the six months ended 30 June 2002, the Group had no designated deposits or any deposits which could not be collected upon maturity.

The Audit Committee of the Company has reviewed with the management of the Company the accounting principles and practices accepted by the Group and has discussed with the Directors matters concerning internal controls and financial reporting of the Company, including a review of the unaudited interim financial statements of the Company for the six months ended 30 June 2002.

By order of the Board of Directors
China Eastern Airlines Corporation Limited
Ye Yigan
Chairman

Shanghai, the PRC
26 August 2002