





Ye Yigan, Chairman

Dear shareholders,

I am pleased to announce the report on the operating results of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2002. On behalf of all the staff of the Group, I would like to extend my sincere thanks to the shareholders for their support of the Group.

In 2002, the global economy began to gradually recover. As a result of the

Chinese government's active fiscal policies and stable monetary policies, and the further implementation of the policy to stimulate demand in the domestic economy, China successfully realised a stable transition in the first year after its accession to the WTO and the national economy continued to maintain its high rate of growth.

Faced with the increasingly intense competition in the domestic and international air transport market and, in particular, the increased capacity of



*From left:
Mr. Xia Xinghua, Director General of CAAC Eastern China Bureau,
Mr. Han Zheng, Mayor of Shanghai Municipal Government, Mr.
Li Fenghua, President of our company, working together in
October 2002 at Pudong International Airport for on-site review
of the allocation of flights to Pudong.*

foreign airline companies in the China market, the Group proactively adopted a series of measures, which include actively adjusting its capacity structure so as to efficiently allocate passenger and freight capacity in response to market demand, optimising its route network, strengthening flight monitoring capabilities and opening new passenger routes. The Group opened the Beijing-Delhi route, and subsequently the Beijing-Tokyo and Shanghai-Kagoshima routes, thereby increasing competitive advantage on certain international routes. The Group also further developed the transportation market and increased its market share in Shanghai through promoting its "China Eastern Express" service, and launching express transition services on the Shanghai-Hong Kong-Taipei route together with Cathay Pacific Airways. Such services were launched in

foreign companies and established an equity joint venture avionics maintenance service company with Rockwell Collins Avionics of the United States in order to enhance the quality of avionic product maintenance and reduce maintenance costs. The Company actively procured and completed the restructuring of the former Wuhan Airlines Company and in August 2002 established China Eastern Airlines Wuhan Limited. In October 2002, China Eastern Air Holding Company ("CEA Holding") was formally established by merging Eastern Air Group Company ("EA Group") with China Northwest Airlines Company and Yunnan Airlines Company. The establishment of CEA Holding will have a positive effect on the Group's future expansion of air transport operation. As the host of the 58th annual meeting of International Air Transportation Association, the

response to the market demand and attracted and ensured a more stable passenger traffic. In addition, the Group improved its sales network, strengthened its marketing management, upgraded its online ticket reservation and payment system and expanded e-commerce research and development. The Group also expanded its cooperation with

Company provided venue and quality transportation, conference and security services for the annual meeting and won world-wide praises.

In 2002, traffic volume of the Group totalled 2,652 million tonne-kilometres, an increase of 11.7% over the same period in 2001, while revenues from the Group's principal business amounted to RMB12,482 million, an increase of RMB804 million or 6.88% over the same period in 2001. The average aircraft daily utilization was 8.6 hours, a reduction of 0.5 hours from the same period in 2001.

The increase in the revenues from the Group's principal business derived mainly from the Group's operations on international routes. The increase in passenger revenues was due to increase in passenger traffic on the Group's Japanese and Korean routes, and the recovery in market demand on its European and American routes from the events of September 11. The significant increase in the Group's cargo and mail revenues was attributable to the increased volume of importation and exportation after China's accession to the WTO and the positive effect on the Group's cargo operations by the west coast port strike in the United States in 2002.

In 2002, the Group's total operating costs reached RMB12,242 million, an increase

of 8.50% over the same period in 2001. The increase in operating costs was primarily due to the increase in employee salaries, takeoff and landing charges and the deficit resulted from the revaluation of assets conducted by the Company in 2002.

As at 31 December 2002, the Group conducted a revaluation of its assets pursuant to the requirements of IFRS. As a result of the revaluation, the Group recognised a net revaluation surplus of RMB136,902,000 and in the revaluation reserve and a charge to profit and loss account of RMB171,753,000.

In addition, the Group has a significant percentage of Japanese Yen denominated liabilities. Due to the appreciation of the Japanese Yen against the Renminbi in 2002, the Group's financial statements reflect a foreign currency exchange loss of RMB37.52 million for 2002.

In summary, the Group's profits attributable to shareholders were RMB86.37 million for the year ended 31 December 2002, a decrease of 84.06% from the same period in 2001. The decrease was mainly due to the revaluation deficit resulted from the revaluation of assets conducted by the Company as at 31 December 2002. The earnings per share were RMB0.018.



*In March 2002, our company provided quality transportation services to members of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).
Front: Mr. Wang Liping, Chairman of Shanghai CPPCC.*

As at 31 December 2002, the Group had approximately 15,700 employees, most of them worked in China. The compensation of the Group's employees was primarily composed of the basic salary and performance-based bonus. There were no labour disputes between the Group and its employees. The Group did not experience a loss of employees or encounter any difficulties in recruiting new employees.

In January 2001, the Group joined the staff medical benefit scheme introduced by the Shanghai Municipal Government. The Group and each of its employees are required to contribute to such scheme 12% and 2%, respectively, of the basic salaries of the relevant employee. Other than such contribution, the Group does not have other obligations with regard

to its employees' medical benefits. The Group believes that the implementation of such medical benefit scheme will not significantly affect the Group's operations and financial condition.

Outlook for the year 2003

The Group would like to caution readers that this report contains, inter alia, some forward-looking statements, such as certain forward-looking statements on the Asian and Chinese economies and aviation markets. These forward-looking statements are subject to numerous uncertainties and risks.

The Company believes that, in general, the global economy will continue to recover, and the domestic economic climate will be positive in 2003. The air transportation market will continue to



Opening Ceremony for China Eastern Wuhan.

offer numerous opportunities and challenges.

The economies of the United States, Japan and European Union will recover at a slow pace due to unstable financial markets, limited space for trade growth and relatively weak consumer demand. The Gulf War II will also significantly affect the global political and economic relations. On the other hand, however, the steady growth of the Chinese economy has brought hopes to global economic recovery. The healthy macro-environment in China provides growth opportunities for the civil aviation industry. The year of 2003 is the first year following the 16th National Congress of the Communist Party of China. Investment and consumer demand will continue to increase rapidly under the

Chinese government's continued policy to stimulate domestic demand. The Group's main base of operations, Shanghai, is leading the economy growth in China and rapidly developing into an international economic centre, trade centre, financial centre and air transportation centre. The successful bid of Shanghai to hold Expo 2010 will also inject vigour into its economic development. The increase in import and export, and the volume of business activities and culture exchanges will drive a further boom in the air transportation market. As a result, the Group expect its passenger and freight traffic volume to increase steadily.

With further growth in China's economy and the steady improvement of Chinese people's living standards, tourism has gradually become a fast-growing

business. China, with its extensive territory, large population and rich tourist resources, holds potential for the development and growth of air transportation. The Group expects to utilize the opportunities provided by large events, traditional holidays and tourism season and to timely adjust and allocate its transportation capacity in order to increase its traffic volume on all routes, thereby increasing its transportation revenues.

As a result of the expanded reforms and strategic restructuring of China's civil aviation industry, the Group's route network will be further improved. The Group will also increase its capabilities to develop the air transportation market in western China and build up a solid foundation for the Group to face intensified market competition. The current market demand, China's economy and social development, and the Chinese government's macro-economic policies all indicate that competition in the domestic market will become more regulated and in order as a result of the adjustments of the Chinese government's macro-control policies with respect to the aviation market, and the strengthening of regulation over that market.

The Group believes that the operation of its domestic routes will maintain its steady growth trend. The expansion of

its fleet and enhanced efficiency will enable the Group to increase flight frequency on domestic and regional routes and increase its market share. The Company believes that demand in the air transportation market will continue to grow in 2003, and the balance between market demand and supply will gradually improve. The Group will formulate a prudent aircraft purchase plan based on market development and the features of its own fleet.

In response to the business environment and aviation market conditions which it will face in 2003, the Company will duly carry out the following tasks to enhance its competitiveness:

1. To strengthen supervision and management and ensure flight safety

Year 2002 was the Company's 9th safe flight year. Again the Company received the highest flight safety award for civil aviation enterprises, the Golden Roc Cup. The Company will continue to strengthen safety administration, expand investment on technology, improve its training program, and raise its current safety standards. In particular, the Company will focus on improving its safety system. In an effort to further enhance the safety administration and realize the real-time monitoring of the entire flight, the Airline Operation Control (AOC) Center will

commence operation within this year. In addition, the Company will pay close attention to the development of Gulf War II and terrorism as well as their potential effects on the Company's flight safety. The Company will also adopt effective safety measures in response to the current public security characteristics.

2. To promote creativity in services and build "China Eastern" brand advantage

In the activity "Million Passengers' Appraisal of Civil Aviation", the Group ranked No. 1 for the second year in a row. With the development of the aviation market and the diversification of passenger demand, efforts will be made to continually improve the Company's services. Through the promotion of personalised and friendly services, the services of the Company respond to the most current demand of its customers. The Company will also further expand its tailored "China Eastern Express" services currently provided to its customers on the Shanghai-Beijing and Shanghai-Hong Kong routes. Passengers will be able to enjoy the "China Eastern Express" inter-city services on many other routes. Moreover, the Company will improve its network of domestic tourist routes and will introduce its "one flight" service between cities. Furthermore, the Company will appropriately adjust its flight schedule, improve its on-time

arrival rate and enhance services for delayed flights. The Company will also promote ISO9000 international standards certification among all its subsidiaries, branches, and sales and operation offices in order to standardize and unify its standards of service and build positive image of the Company.

3. To monitor real-time market change and appropriately adjust allocation of capacity

In 2003, the Company plans to purchase and put into operation ten Airbus A320 aircraft and three Airbus A340-600 aircraft, and to acquire five Boeing 737-700 and put into operation aircraft under operating leases. To ensure a proper allocation of the added capacity in response to the development of its route network, the Company will:

- (1) in terms of capacity allocation, establish a capacity control and direction centre to carry out the overall allocation and centralized management of capacity resources, timely take appropriate measures in response to market changes, and appropriately increase the daily utilization of every model of aircraft in order to generate maximum returns by utilizing limited capacity;
- (2) expand the "China Eastern Express" services on more routes between

Shanghai and provincial capitals, and expand coverage in the eastern China market, in particular market share in areas around Shanghai; increase capacity on high earning routes to Hong Kong, Japan, Korea, Southeast Asia and other places, and expand foreign cooperation; continue to provide quality services on routes to Europe, the United States and Australia in order to increase competitive advantages on long-distance international routes;

(3) improve flight allocation during holidays and festivals, concentrate capacity on high-yielding routes during peak seasons, arrange extra flights and charters as appropriate, and explore new business for financial growth; and

(4) continue to promote the development of the freight business, leverage on the advantages of its advanced flight network, appropriately arrange its routes, develop the freight through-traffic and transit market and increase returns on cargo flights.

4. To standardize and improve operations and enhance sales and marketing efforts

The Company will, through the following measures, promote the comprehensive development of its computer-based sales

management system, timely adjust and improve its operations, and expand its marketing channels in response to the challenges presented by the market competition:

(1) to introduce and operate a route earning management system as soon as possible in order to timely monitor

changes in market supply and demand, implement a flexible price determination mechanism to quickly respond to market changes, and improve route return rates;

(2) to continue localized sales operations and sales on a contract basis, expand direct sales efforts, build a sales representative team, improve its passenger and freight agent management system, formulate a reasonable sales agent bonus system and further promote compliant and orderly sales practices;

(3) to expand, in line with market changes, its scope of cooperation with foreign carriers by entering into code sharing agreements and special pro rata agreements (SPA) in order to supplement the Company's flight networks;



China Eastern Airlines received the "Million Passenger's Appraisal of Civil Aviation" Award in 2002.

Right: Mr. Liu Shaoyong, Vice Director of CAAC; Left: Mr. Wu JiuHong, Vice President of our company.

(4) to explore opportunities to enter into business agreements with travel agencies, governmental agencies, institutions and large enterprises in order to expand a wide range of cooperation and develop the "airline ticket + hotel" business; in addition, to increase investment on advertising and establish a good cooperative relationship with the media;

(5) to upgrade its frequent flyer information system, streamline the working process with respect to frequent flyer services in order to satisfy the needs of program members that is increasing rapidly; moreover, to accelerate the upgrade of the frequent flyer points program into a mileage bank program and improve the overall quality of services offered to the China Eastern Airlines Golden Swallow Club members; and

(6) to actively promote the use of electronic tickets. After an in-depth study and analysis of the electronic ticket business model and technology framework, the Company will promote the use of electronic tickets in major cities this year; in addition, to further improve its e-commerce system, and allow the online ticket reservation and payment system, as a modern commerce platform, play a greater role in sales.

5. To strengthen financial management and effectively reduce costs and expenses

The Company believes that, in 2003, aviation fuel prices will fluctuate with great uncertainties. The payments under leases for newly acquired aircraft and accrued depreciation will also result in increased costs and expenses. The



Mr. Ye Yigan, Chairman of our company, delivered a speech at the 58th Annual Meeting of IATA.

Company will implement the following measures:

(1) to implement a comprehensive budget management system, approval and evaluation, strictly control project investment, endeavour to reduce expenditures on controllable expenses, improve the efficient use of funds and establish a rational financial administration model;

(2) to actively explore new financing methods for aircraft so as to reduce the Company's financing costs, closely monitor the fluctuations in fuel prices, enhance aviation fuel risk management and formulate a reasonable plan to mitigate aviation fuel price risks, implement effective control of foreign exchange risk, and gradually realise comprehensive control of the Company's financial risks; and

(3) to strengthen aviation material procurement and storage management, expand cooperation with other companies in maintenance operations, streamline the working process with respect to aviation material operations, and reduce the proportion of working capital spent on aviation materials.

6. To promote the integration of business cultures and procure certain mergers and reorganizations

In October 2002, EA Group merged with China Northwest Airlines Company ("Northwest Airlines") and Yunnan Airlines Company ("Yunnan Airlines") and formed CEA Holding, which substituted EA Group and became the controlling shareholder of the Company holding approximately 61.64% of its issued share capital. To the knowledge of the Company's Directors, CEA Holding is currently in the process of separating the main assets of Northwest Airlines and Yunnan Airlines from their accessorial assets and integrating certain main aviation assets of the two companies.

After the reorganization, the scale of the Group is expected to expand and its market, routes, fleet and human resources are expected to be optimised to improve the Group's operational environment. It will also allow the Group to establish enhanced domestic and international route networks and increase its share of the domestic market.

On behalf of the Board of Directors, I would like to express my gratitude to all of the shareholders.

Ye Yigan
Chairman