



The board of directors of the Company (the "Board of Directors") is pleased to present the audited financial report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002.

Group Activities and Results

The Company is one of the three largest air carriers in the PRC based on tonne-kilometres and number of passengers carried in 2002 and is the primary air carrier serving Shanghai, the largest economic, trading and financial centre

of the PRC. The results of the Group for the year ended 31 December 2002 and the financial position of the Company and the Group as at that date, prepared in accordance with International Financial Reporting Standards and PRC Accounting Regulations, are set out in the financial statements.

Details of the Company's principal subsidiaries are set out in note 15 to the financial statements prepared in accordance with International Financial Reporting Standard.

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

	PRC Accounting Regulations (RMB'000)	IFRS (RMB'000)
Domestic	5,571,650	4,915,877
Hong Kong Special Administrative Region ("Hong Kong")	2,206,336	2,168,286
International	5,612,660	5,398,334
Total	13,390,646	12,482,497

Dividends

As at 31 December 2002, the Company's accumulative distributable profits were approximately RMB198,158,023.32 based on the financial statements prepared in accordance with the PRC Accounting Regulations. Having considered the Company's cash flow situation and operating needs in 2003, the Board of Directors recommended payment, in respect of the Company's accumulative undistributed profits distributable to its shareholders, of a cash dividend of RMB0.02 per share (including tax) based on an aggregate of 4,866,950,000 shares of the Company as at 31 December 2002. Holders of H shares will receive a dividend in an equivalent amount based on the foreign exchange conversion rate published by the People's Bank of China on the date of the distribution of the cash dividend, representing a total cash dividend payment of RMB97,339,000 (excluding the expenses for the distribution of the above dividend). The balance of the undistributed profits distributable to the shareholders will be carried over to next year. The Company will not convert funds from the common reserve to increase its share capital. The Board of Directors also decided that the above distribution proposal will be submitted to the 2002 Annual General Meeting for approval.

Share Capital Structure

As at 31 December 2002, the share capital structure of the Company was as follows:

	At the beginning of the period (10,000 shares)	Approximate percentage in share capital (%)	Increase/ (Decrease) during this period (10,000 shares)	At the end of the period (10,000 shares)	Approximate percentage in share capital (%)
1. Unlisted Shares					
(a) State-owned					
legal person shares	300,000	61.64	0	300,000	61.64
2. Listed shares					
(a) H Shares	156,695	32.20	0	156,695	32.20
(b) A Shares	30,000	6.16	0	30,000	6.16
3. Total number					
of shares	486,695	100	0	486,695	100

Number of Shareholders

As at 31 December 2002, the total number of registered shareholders of the Company was 121,616.

Substantial Shareholders

As at 31 December 2002, the 10 largest shareholders of the Company and their respective shareholding are as follows:

Name	Number of shares held	Shareholding (%)
1. CHINA EASTERN AIR HOLDING COMPANY ("CEA Holding")	3,000,000,000	61.64
2. HKSCC NOMINEES LIMITED	1,457,657,999	29.95
3. PUFENG FUND	7,175,018	0.147
4. HONGYANG FUND	6,036,482	0.124
5. HONGKONG & SHANGHAI BANKING CORPORATION (NOMINEES) LIMITED A/C BR-9	3,000,000	0.0616
6. HANXING FUND	2,994,300	0.0615
7. JINHONG FUND	2,825,000	0.058
8. HSBC NOMINEES (HONGKONG) LIMITED	2,388,000	0.049
9. HSBC NOMINEES (HONGKONG) LIMITED A/C BR-43	2,256,000	0.0464
10. Xihang Technology	2,223,500	0.0457

Except as disclosed above, directors of the Company (“Directors”) are not aware of any person (other than the Directors themselves, chief executive, senior management or supervisors (“Supervisors”) of the Company) who as at 31 December 2002 was interested in 10% or more of any class of share capital of the Company.

Controlling Shareholder

CEA Holding is the parent company of the Company. It was formed in the PRC on 11 October 2002 through the merger of its core entity, Eastern Air Group Company (“EA Group”) (the Company’s former controlling shareholder), with China Northwest Airlines Company and China Yunnan Airlines Company. Mr. Ye Yigan is the legal representative of CEA Holding. CEA Holding manages all State-owned assets and State-owned equity of the Company, and of the enterprises invested in by the Company, which are formed by State investment. As at 31 December 2002, the shares of the Company held by the CEA Holding were not pledged.

Acquisitions and Mergers

CEA Holding, a large, State-owned air carrier, was formed on 11 October 2002 through the merger of its core entity, EA Group (the Company’s former parent company), with China Northwest Airlines Company and Yunnan Airlines Company. EA Group ceased to exist. With an approximately 61.64% equity interest in the Company, CEA Holding has become its controlling shareholder. For details please see the announcement issued by the Company on 11 October 2002.

On 16 August 2002 the Company entered into a joint venture contract with Wuhan Municipality State-owned Assets Management Committee Office, Shanghai Junyao Aviation Investment Company Limited and Wuhan High-technology Holding Group Company Limited for joint investment in, and the establishment of, China Eastern Airlines Wuhan Limited. For details, please see the announcement issued by the Company on 16 August 2002.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its securities (the term “securities” has the meaning ascribed thereto in paragraph 1 of part I of Appendix 7 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Compliance with the Code of Best Practice

The Company has at all times during the year ended 31 December 2002 complied with the “Code of Best Practice” set out in Appendix 14 to the Listing Rules.

Pre-emptive Rights

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

Directors, Supervisors, and Senior Management

Names, relevant information of and shares held by the Directors, the Supervisors and senior management of the Company during 2002 and as at the date of this report are as follows:

Name	Position	Age	A shares held by each individual
Ye Yigan	Chairman of the Board of Directors	60	0
Liu Shaoyong	Director	45	0
Wan Mingwu	Director, Vice President	56	0
Cao Jianxiong	Director	44	2,800
Zhong Xiong	Director	57	2,800
Chen Quanxin	Director	61	2,800
Wu Baiwang	Director	60	0
Zhou Ruijin	Independent Non-executive Director	64	0
Gong Haocheng	Independent Non-executive Director	75	0
Hu Honggao	Independent Non-executive Director	49	0
Peter Lok	Independent Non-executive Director	66	0
Li Wenxin	Chairman of the Supervisory Committee	54	0
Ba Shengji	Supervisor	44	2,800
Zhou Rongcai	Supervisor	58	0
Yang Jie	Supervisor	33	0
Liu Jiashun	Supervisor	46	0
Li Fenghua	President	53	0
Wu Yulin	Vice President	54	2,800
Wu Jiuhong	Vice President	51	0
Yang Xu	Vice President	42	0
Fan Ru	Chief Pilot	53	2,800
Luo Weide	Chief Financial Officer	47	0
Luo Zhuping	Secretary of the Board	50	2,800

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

Mr. Ye Yigan is the incumbent chairman of the Board of Directors. Mr. Ye joined the civil aviation industry in 1965. From 1983, he served as deputy chief engineer of the aircraft repair factory of the CAAC Shanghai Bureau. From 1985, he served as head of the aircraft repair factory of the CAAC Shanghai Bureau. In December 1987 he became deputy head of the CAAC East China Bureau. From 1992, he served as president and deputy party secretary of China Aviation Supplies Corp. From June 1996, he served as head and party secretary of the CAAC East China Bureau. From April 2001 to September 2002, he served as president and party secretary of EA Group. From June 2001 he became chairman of the Board of Directors. In October 2002, he became president of CEA Holding. Mr. Ye graduated from the China Civil Aviation Institute in Tianjin, with a major in aircraft instrument maintenance. He holds the title of Senior Engineer.

Mr. Liu Shaoyong is currently a Director. Mr. Liu joined the civil aviation industry in 1978. From 1993 to 1995 he was deputy fleet leader and subsequently became fleet leader of the Taiyuan fleet of China General Aviation Corporation. From 1995 to 1997 he was deputy

president of China General Aviation Corporation and deputy head of the CAAC Shanxi Bureau. From 1997 to 1999 he was president of the Company's Shanxi branch and from 1999 to December 2000 he was director of the CAAC's department of flight standards. From December 2000 to October 2002, he was president and deputy party secretary of the Company. Mr. Liu graduated from the China Civil Aviation Flight Academy. In 1999, he graduated from the graduate school at the Tianjin School of Finance and Economics, majoring in international trade. He holds the title of First Class Pilot.

Mr. Wan Mingwu is currently a Director as well as the Company's party secretary and vice president. Mr. Wan joined the civil aviation industry in 1968. From 1983 to 1990 he was deputy section chief and section chief of the cadre section of the political department of the CAAC Shenyang Bureau. From 1990 to 1992 he was section chief of the personnel section of China Northern Airlines. From 1992 to 1995 he was deputy party secretary of China Northern Airlines and from 1995 to 2000 he was party secretary of China Northern Airlines. Since December 2000 he has been party secretary and vice president of the Company. Mr. Wan graduated from Civil Aviation Mechanics Vocational School. Mr. Wan is a college graduate and holds the title of Senior Political Work Instructor.

Mr. Cao Jianxiong is currently a Director. Mr. Cao joined the civil aviation industry in 1982. From 1992, he served as president of Shanghai Eastern Airlines Development Company and in 1994 he became president of Eastern Airlines Futures Brokerage Company. In early 1996 he served as an assistant to the president of the Company. From 1997, he served as vice president and chief accountant of the Company. Since December 1999, he has served as vice president of EA Group. Since October 2002, he served as vice president of CEA Holding. Mr. Cao graduated from the Civil Aviation Management Institute with a major in labour economics. Mr. Cao also received a Master's degree in global economics from Eastern China Normal University's Department of International Finance. Mr. Cao holds the title of Economist.

Mr. Zhong Xiong is currently a Director of the Company and chairman of the workers' union of CEA Holding. Mr. Zhong joined the civil aviation industry in 1970. From 1986 to 1988, he was vice president of Transportation Services Company of the CAAC Shanghai Bureau and was president of the sales and transportation department of China Eastern Airlines from 1988 to 1992. From 1992 to April 1995, he was vice president of China Eastern Airlines. From May 1995 to April 2002, Mr. Zhong has been a vice president of the Company. He graduated in 1970 from the English

Department of Liaoning Teacher's College and holds the title of Economist.

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

Mr. Wu Baiwang is currently a Director of the Company and party secretary of Guangzhou Baiyun Airport. Mr. Wu joined the civil aviation industry in 1959 and was deputy fleet leader and subsequently became fleet leader of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From 1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. In September 1995, he became president of China General Aviation Corporation. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

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

Mr. Gong Haocheng is currently an independent non-executive Director of the Company. He is chairman of the supervisory committee of Guotai Junan Securities Co., Ltd., president of the Shanghai Institute of Securities and Futures, and a professor at the Shanghai University of Finance, Shanghai University of Communications and Eastern China College of Law and Politics. From 1984 to 1991, he was assistant branch manager and then branch manager of the Shanghai Branch of the People's Bank of China, and subsequently became head of the Shanghai Bureau of the State Administration of Foreign Exchange. Mr. Gong was involved in the establishment of the Bank of Communications, the Shanghai Stock Exchange and the Shanghai Foreign Exchange Swap Centre.

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

Mr. Peter Lok is currently an independent non-executive Director of the Company. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England from 1968 to 1973. In 1982, he became assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became

deputy director in 1988, and subsequently became director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996 and has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

Mr. Li Wenxin is currently chairman of the Company's supervisory committee. Mr. Li joined the civil aviation industry in 1970. From 1992 to 1995 he was secretary of the disciplinary committee of China General Aviation Company. From 1995 to 1996 he was deputy party secretary of China General Aviation Corporation. From 1996 to 1998 he was deputy president of China General Aviation Corporation and from February 1998 to June 2002, he assumed the post of party secretary and executive deputy president of the Shanxi branch of the Company. From June 2000 to September 2002, he served as deputy party secretary and secretary of the disciplinary committee of EA Group. Since October 2002, he served as party secretary and vice president of CEA Holding. Mr. Li received university education and is a qualified Senior Political Work Instructor.

Mr. Ba Shengji is currently a Supervisor. Mr. Ba joined the civil aviation industry

in 1978. From 1980, Mr. Ba was an accountant at the Department of Finance of the CAAC Shanghai Bureau. From 1988, he served as the section head of the Department of Finance of China Eastern Airlines. In 1993, Mr. Ba became the deputy head of the Department of Finance of China Eastern Airlines. In March 1997, Mr. Ba became the chief officer of the auditing office of the Company. From December 1997 to September 2002, he served as the head of EA Group's auditing department. Since October 2002, he became the head of CEA Holding's auditing department. Since January 2003, he concurrently served as chief of CEA Holding's disciplinary committee's administrative office. Mr. Ba received university education and is a qualified auditor.

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

the workers' unions of the Company and EA Group. Since April 2001, he served as the party secretary of Shanghai Eastern Air Catering Co. Ltd.. Mr. Zhou graduated from the Shanghai Air Force Political Academy.

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

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

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

Mr. Li Fenghua is the president of the Company. Mr. Li joined the civil aviation industry in 1968 and was deputy head and subsequently became head of the 26th Fleet of the CAAC from 1987 to 1992. From 1992 to 1996 he served as vice president and then became president of the Hubei branch of China Southern Airlines (Group). In 1996 he became vice-president of China Southern Airlines Company Limited and vice president of China Southern Airlines (Group). In 2000 he became party secretary and vice president of China Southern Airlines Company Limited. Since October 2002 he has been president of the Company and vice president of CEA Holding. Mr. Li graduated from the China Civil Aviation Senior Aviation School and holds the title of First Class Pilot.

Mr. Wu Yulin is a vice president of the Company. Mr. Wu joined the civil aviation industry in 1966. From 1975 to 1985, he was the deputy head, and from 1985 to

1988, the head, of the 5th Fleet of the CAAC. In 1998, Mr. Wu became the head of China Eastern Airlines' Shanghai Fleet. From 1989 to 1994, Mr. Wu was the deputy chief, and from 1994 to 1995, the chief, of the Aviation Skills and Management Department of China Eastern Airlines. He was the director of China Eastern Airlines' Safety Supervision Department from 1995 to 1997, deputy pilot and chief of the Safety Supervision Department of the Company from 1997 to 1998 and president and party secretary of the Hebei Branch office of the Company from 1998 to 1999. Mr. Wu has been vice president of the Company since December 1999. Mr. Wu graduated from Chinese Civil Aviation School and holds the title of First Class Pilot.

Mr. Wu JiuHong is a vice president of the Company. Mr. Wu joined the civil aviation industry in 1971. From 1968 to 1971 he served with the 60th division under the 20th army. From 1971 to 1973 he studied aviation machinery at the Civil Aviation College. From 1973 to 1981 he was with the 18th Fleet of the CAAC's 2nd General Fleet. From 1985 to 1988 he served as Communist Youth League secretary and deputy head of the political department of the CAAC's Jiangxi Bureau. From 1988 to 1995 he concurrently served as deputy party secretary and disciplinary committee secretary of the Cabin Service Department of China Eastern Airlines. From 1995 to 1997 he served as head of

the Company's publicity department. From 1997 to 2002, he served as party secretary and executive vice president of the Company's Jiangxi branch. Since April 2002 he has been vice president of the Company. Mr. Wu has completed postgraduate studies and is a qualified senior political work instructor.

Mr. Yang Xu is a vice president of the Company. Mr. Yang joined the civil aviation industry in 1982. Mr. Yang was president and party secretary of the overhaul department at the aircraft maintenance base of China Eastern Airlines from 1993 to 1997, the vice president of the aircraft maintenance base of the Company from 1997 to 1998, and president and deputy party secretary of the aircraft maintenance base of the Company from 1998 to 1999. Mr. Yang has been the chief engineer of the Company since December 1999. Since April 2002, he served as vice president of the Company. Mr. Yang graduated from the Nanjing Aviation School with a major in aircraft manufacture and holds the title of Senior Engineer.

Mr. Fan Ru is the chief pilot of the Company. Mr. Fan joined the civil aviation industry in 1968. Mr. Fan was the deputy head of the 5th Fleet of the CAAC from 1985 to 1988, the deputy head of China Eastern Airlines' Shanghai Fleet from 1988 to 1995, the chief of the Aviation Skills and Management

Department of the Company from 1995 to 1997 and the deputy pilot and chief of the Aviation Skills and Management Department of the Company from 1997 to 1999. Mr. Fan became the chief pilot of the Company in December 1999. Mr. Fan graduated from the Chinese Civil Aviation School and holds the title of First Class Pilot.

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

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

Changes in Management Personnel

It was resolved at the sixth meeting of the third session of the Board of Directors held on 4 April 2002 that, because of reallocation of responsibilities, Mr. Zhong Xiong ceased to act as vice president of the Company, and Mr. Wu Jiuhong and Mr. Yang Xu were appointed as vice presidents. On the same day, the Board of Directors resolved that Mr. Yang Xu no

longer served as Chief Engineer of the Company.

In the eleventh meeting of the third session of the Board of Directors held on 14 October 2002, it was resolved that, because of reallocation of responsibilities, Mr. Liu Shaoyong ceased to act as president of the Company and Mr. Li Fenghua was appointed as president of the Company.

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

Except as disclosed above, none of the Directors, chief executive, Supervisors or senior management of the Company and their associates had, as at 31 December 2002, any interests in any issued shares or debentures of the Company or any associated corporation, or any interests in warrants to subscribe for shares in the Company or any associated corporation or any interests which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of Supervisors, which are required to be notified in accordance with the regulations relating to Directors.

In 2002 and as at 31 December 2002, none of the Directors, Supervisors, chief

executive, senior management of the Company and/or any of their spouses or children under eighteen year of age were granted any right, and the Company had not made any arrangements enabling any of them, to subscribe for share capital or debt securities of the Company.

Service Contracts of Directors and Supervisors

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

Interests of Directors and Supervisors in Contracts

Except as disclosed in this report, none of the Directors or Supervisors had a material interest in any contract of significance (the term 'contract of significance' has the meaning ascribed thereto in paragraph 15 of Appendix 16 to the Listing Rules) to which the Company or any of its subsidiaries was a party during the year.

Remuneration of Directors and Supervisors

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

Employees

As at 31 December 2002, the Group had approximately 15,700 employees, a majority of them worked in the PRC.

Medical Insurance

In January 2001, the Group joined the medical insurance scheme promulgated by the Shanghai Municipal Government. The Group and its employees contribute approximately 12% and 2% of the employees basic salaries to the scheme, respectively. The Group has no other obligation for the payment of medical expenses beyond the annual contributions. The Group believes that such scheme will not have significant impact on the operation and the financial aspects of the Group.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2002 are set out in notes 26 to 27 to the financial statements prepared in accordance with IFRS.

Interest Capitalized

Interest capitalized for the Group as calculated in accordance with IFRS for the year ended 31 December 2002 was RMB71.948 million.

Fixed Assets

Movements of fixed assets of the Company and the Group during the year are summarized in note 12 to the financial statements prepared in accordance with IFRS.

Reserves

Details of movements in reserves of the Company and the Group for the year ended 31 December 2002 are set out in note 29 to the financial statements prepared in accordance with IFRS.

Statutory Common Welfare Fund

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

Donations

During the year, the Group made donations for charitable purposes amounting to RMB1,860,218.19.

Employees' Retirement Scheme

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

Major Suppliers and Customers

As at 31 December 2002, the cost of aircraft and related materials from the Group's largest and five largest suppliers accounted for approximately 52.28% and 62.35%, respectively, of the total purchases of the Group. The aggregate percentage of sales attributable to the Group's five largest customers combined accounted for less than 30% of the Group's total sales in 2002.

The largest supplier, Eastern Aviation Import and Export Company, is the wholly-owned subsidiary of CEA Holding. In 2002, the cost of aircraft, related equipments and other purchases from Eastern Aviation Import and Export Company accounted for approximately 52.28% of the Group's total purchases.

One of the five largest suppliers is Shanghai Eastern Air Catering Co. Ltd. ("Eastern Air Catering"), which is 60% owned by CEA Holding. The cost of food and beverages purchased by the Group from Eastern Air Catering in 2002 accounted for approximately 1.79% of the Group's total purchases.

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

Material Contracts

Details of material contracts entered into subsequent to the balance sheet date are set out in note 42 to the financial statements prepared in accordance with IFRS.

AGM and Board Meetings

AGM

On 18 June 2002, the Company held its 2001 AGM at Bai Hua Hall, Fourth Floor, 2nd Door, Pine City Hotel, 8 Dong'an Road, Shanghai, The People's Republic of China to discuss various resolutions proposed by the Board of Directors. Ordinary resolutions were passed to approve each of the following matters: the Directors' report, the Supervisory Committee's report, the audit report and final accounts, and the profit appropriation proposal of the Company for the year ended 31 December 2001; the appointment of auditors and the appointment of four independent directors of the Company. Special resolutions were passed to approve the amendment of the Company's articles of association requiring that at least three seats on the Board of Directors be filled by independent directors.

Board Meetings

During 2002 the Company's Board of Directors held 5 regular meetings and 2 ordinary meetings and passed, among others, the following resolutions:

Reviewing and approving the Company's production and business plan and investment proposal for 2002 and the working report of the president of the Company for 2001; approving the acquisition of 20 A320 aircraft over a number of years; approving the adjustment of the depreciation period of the Company's aircraft and engines; approving the sale of the Company's two MD-11F cargo aircraft to China Cargo Airlines Limited; approving the establishment of Shanghai Eastern Aircraft Services Ltd., an equity joint venture with China Aircraft Services Ltd. in which the Company has a 60% interest; reviewing and approving the Company's 2001 audit report and profit appropriation proposal and the draft announcement of its 2001 results; reviewing and approving the proposed accounting estimate policies of the Company; reviewing and approving proposed amendments to the Company's articles of association and deciding on the proposed disclosure of matters concerning the Company's land use rights; deciding to establish the Company's salaries and evaluation committee and deciding to propose the holding of the Company's 2001 AGM; reviewing and approving the Company's first interim report of 2002 and the 2002 forecast profit appropriation proposal; reviewing a motion to propose to the shareholders' meeting to re-appoint Shanghai Zhonghua Certified Public Accountants and PricewaterhouseCoopers Certified Public Accountants as the Company's domestic and international auditors for 2002; reviewing and approving the proposal to nominate Mr. Gong Haocheng, Mr. Hu Honggao, Mr. Peter Lok and Mr. Zhou Ruijin as candidates for independent directorships; reviewing and approving a proposal on matters concerning the establishment of Shanghai Eastern Airlines Investment Co., Ltd.; reviewing and approving the drafts of the Company's 2002 interim report and announcement of interim results; reviewing and approving the proposed amendment of the accounting treatment of the Company's income tax; approving the correction of accounting errors in accordance with PRC accounting regulations and reducing retained profits from previous years; reviewing and approving the drafts of the Company's 3rd quarterly financial report and announcement of the 3rd quarterly report; reviewing and approving the proposed transfers of some members of senior management of the Company; reviewing and approving the Self-Inspection Report on the Establishment of Modern Corporate Systems by Listed Companies; reviewing and approving the proposed establishment of China Eastern Airlines Wuhan Limited; approving the accelerated replacement of the Company's existing B737-200 aircraft; approving the construction of a simple hangar and a twin hangar at Pudong Airport; approving additional investment of RMB400 million

in China Eastern Airlines Jiangsu Co., Ltd.; approving the proposed equity joint venture with Collins of the U.S.A., with the Company holding 35% of the equity; approving the proposed real estate purchase by the Company's Thailand office; reviewing and approving the proposed change in the Company's president; approving additional investment of RMB115 million in Shanghai Eastern Flight Training Co., Ltd.; and approving the authorization of the president to examine and approve all matters concerning the establishment of ticketing offices.

Connected Transactions

On 30 January 2002 the Company entered into an Aircraft Transfer Agreement with one of its non-wholly owned subsidiaries, China Cargo Airlines Limited ("CCA") for the sale of the Company's two MD-11F cargo aircraft (with engines) to CCA for a consideration of RMB1,007,608,000. The consideration was paid by CCA, by way of two equal instalments in cash, to the Company on or before 28 February 2002 and 10 March 2002, respectively. The proceeds from such sale are being used by the Company to purchase aircraft with passenger transportation capacity. For details of such connected transaction, please refer to the Company's announcement of 30 January 2002 and the Company's circular dated 28 January 2002.

In order to develop the Company's operation in the Jiangsu aviation market and to increase the market share of China Eastern Airlines Jiangsu Co., Ltd ("China Eastern Jiangsu", a non-wholly owned subsidiary of the Company) in the local market, on 19 December 2002, the Company provided financial assistance, upon normal commercial terms, to China Eastern Jiangsu by way of investing an additional RMB400 million cash in China Eastern Jiangsu as capital contribution towards its registered capital. The other two shareholders of China Eastern Jiangsu (i.e. Jiangsu Provincial Aviation Industry Group and Jiangsu Guoxin Asset Management Co., Ltd.) also made their capital contributions in proportion to their respective shareholding interests in China Eastern Jiangsu. The registered capital of China Eastern Jiangsu was thereby increased from US\$47 million to RMB1 billion. The percentage shareholding interests in China Eastern Jiangsu following such increase in its registered capital remained unchanged, with the Company, Jiangsu Provincial Aviation Industry Group and Jiangsu Guoxin Asset Management Co., Ltd. holding 55%, 24% and 21%, respectively, of its enlarged registered capital. Jiangsu Provincial Aviation Industry Group and Jiangsu Guoxin Asset Management Co., Ltd. are both third parties independent of the Company, its subsidiaries or any of their chief executives, directors or

substantial shareholders or any associates of any of them.

On 30 December 2002 the Company entered into a Share Transfer Agreement with CEA Holding (the Company's controlling shareholder) for the acquisition from CEA Holding of a 45% equity interest in Eastern Aviation Advertising Services Co. for a consideration of RMB15,761,600. Directors of the Company believe that the acquisition of 45% equity interest in Eastern Aviation Advertising Services Co. is expected to reduce the cost of advertisements and other promotional activities of the Company and enhance the profits to be derived from the Company's investments. For details, please refer to the Company's announcement of 30 December 2002.

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

Details of the Company's continuing connected transactions with the Company's connected persons (the term 'connected person' has the meaning ascribed thereto in the Listing Rules) are set out in note 38 to the financial

statements prepared in accordance with International Financial Reporting Standard.

The Company's independent non-executive directors have reviewed such connected transactions during the year 2002 and confirmed that:-

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

In respect of each connected transaction disclosed in note 38 to the financial statements prepared in accordance with International Financial Reporting

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

Details of the other related party transactions entered by the Group for the year ended 31 December 2002 are set out in note 38 to the financial statements prepared in accordance with International Financial Reporting Standard. These transactions do not constitute connected transactions under the Listing Rules.

Waiver from Compliance with the Listing Rules

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

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

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

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

- (i) fleet ATKs will be the aggregate actual ATKs for all aircraft in the Company's fleet for the last financial year as disclosed in the Company's annual report;
- (ii) ATKs for aircraft being disposed of will be based on actual ATKs of the aircraft for the previous two financial years; and
- (iii) ATKs for aircraft being acquired will be based on the historical operating data for the type of aircraft. Where the aircraft to be acquired is of 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 33¹/₃%, 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) should there be any change in control of the Company, The Stock Exchange of Hong Kong Limited will need to reconsider whether the waiver continues to be appropriate.
- As at 31 December 2002, the Company's ATKs were 4,366.64 million.
- On 16 April 2002, the Company entered into an aircraft purchase agreement with an independent third party, pursuant to which the Company has agreed to acquire twenty A320 Airbus aircraft from such third party for an aggregate consideration of US\$800 million to enhance the passenger transportation capacity of the Company's fleet and to strengthen the Company's flight service network in China.
- Pursuant to the waiver mentioned above, as the ATKs for the twenty A320 Airbus aircraft being acquired, when aggregated with the ATKs for all aircraft acquired by the Company during the then last 12 months, represented more than 33¹/₃% of the Company's aggregate fleet ATKs, the acquisition of such twenty A320 Airbus aircraft and the transaction contemplated under the aircraft purchase agreement constituted a discloseable transaction of the Company and, in accordance with the terms of the waiver mentioned above, was required to be disclosed by way of a press announcement. Details of the acquisition were disclosed in the Company's announcement dated 16 April 2002.

In relation to future deliveries of aircraft, as at 31 December 2002, the following are details of aircraft on order which are scheduled to be delivered:

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

As at the date of this report, the Directors are not aware of any aircraft which are subject to options exercisable during a period of not less than 12 months from 31 December 2002.

Staff Quarters

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

the Company's international and domestic auditors, respectively, for the financial year ending 31 December 2003 will be proposed at the forthcoming 2002 AGM.

On behalf of the Board

Material Litigation

The Group was not involved in any material litigation or disputes in 2002.

Ye Yigan

Chairman of the Board

Auditors

PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and Shanghai Zhonghua Certified Public Accountants (registered accountants in the PRC) were the Company's international and domestic auditors in 2002, respectively. A resolution to re-appoint both PricewaterhouseCoopers and Shanghai Zhonghua Certified Public Accountants as

Shanghai, 7 April 2003