Report of the Independent International Auditors

To the shareholders of China Eastern Airlines Corporation Limited
(established in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2002, and the related consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the year then ended, and the balance sheet of the Company as at 31 December 2002. These financial statements set out on pages 43 to 100 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2002, and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 7 April 2003

Consolidated Income Statement

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Traffic revenues			
Passenger		**10,037,830**	9,586,941
Cargo and mail		**2,444,667**	2,091,669
Other operating revenues		**596,492**	474,198
Turnover	3	**13,078,989**	12,152,808
Other operating income	4	**226,373**	127,608
Operating expenses			
Wages, salaries and benefits	5	**(1,035,853)**	(772,896)
Take-off and landing charges		**(1,987,835)**	(1,702,899)
Aircraft fuel		**(2,563,701)**	(2,613,187)
Food and beverages		**(605,894)**	(567,168)
Aircraft depreciation and operating leases		**(2,455,403)**	(2,403,752)
Other depreciation and operating leases		**(400,291)**	(358,120)
Aircraft maintenance		**(1,077,764)**	(966,750)
Commissions		**(379,674)**	(487,009)
Office and administration		**(1,044,113)**	(849,217)
Revaluation deficit of fixed assets	12(a)	**(171,753)**	–
Other		**(519,614)**	(562,319)
Total operating expenses		**(12,241,895)**	(11,283,317)
Operating profit		**1,063,467**	997,099
Finance costs, net	6	**(731,389)**	(814,375)
Exchange (loss)/gain, net		**(37,518)**	126,313
Share of results of associates before tax	16	**(31,666)**	4,546
Profit before taxation	7	**262,894**	313,583
Taxation	9(a)	**(54,438)**	261,454
Profit after taxation		**208,456**	575,037
Minority interests	32	**(122,087)**	(33,324)
Profit attributable to shareholders		**86,369**	541,713
Basic earnings per share	10	**RMB0.018**	RMB0.111

Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2002

	Note	2002 RMB'000	As restated (Note 2(l)) 2001 RMB'000
Non-current assets			
Fixed assets	12	**20,465,950**	20,222,680
Construction in progress	13	**413,812**	347,406
Lease prepayments	14	**867,368**	856,816
Investments in associates	16	**331,570**	109,527
Goodwill and negative goodwill	17	**40,707**	42,909
Advances on aircraft and flight equipment		**3,227,720**	1,141,576
Other long-term receivables and investments	18	**2,223,768**	1,985,554
Deferred tax assets	30	**569,997**	489,375
Derivative assets	40	**9,891**	5,396
		28,150,783	25,201,239
Current assets			
Flight equipment spare parts less allowance for obsolescence (2002: RMB347,198,000; 2001: RMB314,174,000)		**556,376**	464,833
Trade receivables less allowance for doubtful accounts (2002: RMB69,141,000 ; 2001: RMB59,828,000)	19	**965,226**	785,834
Prepayments and other receivables	20	**815,049**	778,055
Short-term investments	21	**290,000**	–
Short-term deposits with an associate	38(a)(ii)	**94,502**	281,362
Cash and bank balances		**1,889,647**	1,099,630
		4,610,800	3,409,714
Current liabilities			
Trade payables	22	**64,523**	48,117
Sales in advance of carriage		**700,714**	645,626
Other payables and accrued expenses	23	**2,791,033**	2,287,380
Current portion of obligations under finance leases	25	**2,247,059**	1,935,672
Current portion of long-term bank loans	26	**1,261,902**	361,236
Notes payable		**411,250**	–
Tax payable		**44,560**	6,949
Short-term bank loans	27	**4,526,509**	1,287,642
		12,047,550	6,572,622
Net current liabilities		**(7,436,750)**	(3,162,908)
Total assets less current liabilities		**20,714,033**	22,038,331

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2002

	Note	2002 RMB'000	As restated (Note 2(l)) 2001 RMB'000
Share capital	28	**4,866,950**	4,866,950
Reserves	29	**2,512,153**	2,453,358
Total capital and reserves		**7,379,103**	7,320,308
Minority interests	32	**404,517**	257,205
Non-current liabilities			
Obligations under finance leases	25	**5,936,907**	7,935,679
Long-term bank loans	26	**5,232,729**	4,939,331
Deferred tax liabilities	30	**802,822**	724,216
Accrued aircraft overhaul expenses	24	**243,684**	193,003
Long-term portion of other payable	31	**142,250**	161,448
Post-retirement benefit obligations	33(b)	**528,924**	507,141
Derivative liabilities	40	**43,097**	–
		12,930,413	14,460,818
		20,714,033	22,038,331

These financial statements have been approved for issue by the Board of Directors on 7 April 2003.

Ye Yigan
Director

Wan Mingwu
Director

Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2002

	Note	2002 RMB'000	As restated (Note 2(l)) 2001 RMB'000
Non-current assets			
Fixed assets	12	**18,581,914**	19,373,619
Construction in progress	13	**109,785**	190,394
Lease prepayments	14	**415,479**	394,383
Investments in subsidiaries	15	**2,020,558**	1,193,174
Investments in associates	16	**361,020**	106,364
Goodwill and negative goodwill	17	**40,707**	42,909
Advances on aircraft and flight equipment		**3,227,720**	1,141,576
Other long-term receivables and investments	18	**2,185,990**	1,944,976
Deferred tax assets	30	**531,520**	470,385
Derivative assets	40	**9,891**	5,396
		27,484,584	24,863,176
Current assets			
Flight equipment spare parts less allowance for obsolescence (2002: RMB339,289,000 ; 2001: RMB305,382,000)		**507,170**	416,276
Trade receivables less allowance for doubtful accounts (2002: RMB65,088,000; 2001: RMB58,875,000)	19	**515,634**	532,516
Prepayments and other receivables	20	**616,194**	682,828
Short-term deposits with an associate	38(a)(ii)	**72,826**	266,741
Cash and bank balances		**797,035**	723,397
		2,508,859	2,621,758
Current liabilities			
Trade payables	22	**50,370**	48,068
Sales in advance of carriage		**558,626**	606,676
Other payables and accrued expenses	23	**2,238,369**	1,953,006
Current portion of obligations under finance leases	25	**2,247,059**	1,935,672
Current portion of long-term bank loans	26	**1,261,902**	361,236
Notes payable		**319,740**	–
Tax payable		**–**	1,755
Short-term bank loans	27	**3,501,509**	982,642
		10,177,575	5,889,055
Net current liabilities		**(7,668,716)**	(3,267,297)
Total assets less current liabilities		**19,815,868**	21,595,879

(Prepared in accordance with International Financial Reporting Standards)
As at 31 December 2002

	Note	**2002** **RMB'000**	As restated (Note 2(l)) 2001 RMB'000
Share capital	28	**4,866,950**	4,866,950
Reserves	29	**2,255,962**	2,445,162
Total capital and reserves		**7,122,912**	7,312,112
Non-current liabilities			
Obligations under finance leases	25	**5,936,907**	7,935,679
Long-term bank loans	26	**5,232,729**	4,939,331
Deferred tax liabilities	30	**749,461**	709,048
Accrued aircraft overhaul expenses	24	**137,734**	102,403
Long-term portion of other payable	31	**142,250**	161,448
Post-retirement benefit obligations	33(b)	**450,778**	435,858
Derivative liabilities	40	**43,097**	–
		12,692,956	14,283,767
		19,815,868	21,595,879

These financial statements have been approved for issue by the Board of Directors on 7 April 2003.

Ye Yigan
Director

Wan Mingwu
Director

Consolidated Cash Flow Statement

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2002

	2002 RMB'000	2001 RMB'000
Cash flows from operating activities		
Profit attributable to shareholders	**86,369**	541,713
Adjustments to reconcile profit attributable to shareholders to net cash from operating activities:		
Depreciation of fixed assets	**1,710,811**	1,719,777
Gains on disposals of aircraft and flight equipment	**(115,904)**	(1,866)
Losses on disposals of other fixed assets	**27,129**	10,643
Amortisation of lease prepayments	**20,128**	26,615
Amortisation of bond discount	**(40,358)**	(37,355)
Amortisation of value added tax	**16,017**	15,832
Write back of provision for post-retirement benefits upon curtailment of medical benefits	**–**	(95,975)
Provision for post-retirement benefits	**23,614**	78,953
Amortisation of goodwill and negative goodwill	**2,202**	3,641
Revaluation deficit of fixed assets	**171,753**	–
Foreign exchange losses/(gains)	**52,207**	(122,614)
Share of results of associates after tax	**32,613**	(3,163)
Minority interests	**122,087**	33,324
Movements in:		
Flight equipment spare parts	**(91,543)**	(65,786)
Trade receivables	**(179,392)**	519,734
Prepayments and other receivables	**(176,609)**	(1,060)
Trade payables	**16,406**	(83,784)
Sales in advance of carriage	**55,088**	(90,927)
Other payables and accrued expenses	**346,336**	328,607
Interest accrued on a long-term payable	**10,802**	6,693
Tax payable	**37,611**	14,810
Deferred taxation	**(17,570)**	(267,754)
Long-term portion of accrued aircraft overhaul expenses	**50,681**	(31,302)
	2,074,109	1,957,043
Net cash from operating activities	**2,160,478**	2,498,756

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Cash flows from investing activities:			
Additions of aircraft and flight equipment		**(1,004,136)**	(1,024,205)
Instalment payment for acquisition of a passenger carriage business		**(30,000)**	(30,000)
Cash acquired from a passenger carriage business		**–**	54,008
Proceeds on disposals of aircraft, flight equipment, other fixed assets and equipment		**149,818**	73,358
Additions of buildings, other fixed assets and equipment		**(206,595)**	(229,703)
Additions of construction in progress		**(287,179)**	(370,647)
Additions of lease prepayments		**(30,680)**	(64,673)
Investments in associates		**(254,656)**	(106,364)
Advances on aircraft and flight equipment		**(2,599,610)**	(991,800)
Repayments of advances on aircraft and flight equipment		**20,722**	61,514
(Increase)/decrease in long-term bank deposits		**(20,992)**	74,358
Purchase of short-term investments		**(290,000)**	–
Net decrease/(increase) in short-term deposits with original maturities over three months		**10,388**	(228)
Net cash used in investing activities		**(4,542,920)**	(2,554,382)
Cash flows from financing activities:			
Repayment of amount due to ultimate holding company		**–**	(15,598)
Short-term bank loans		**6,349,141**	2,037,642
Repayments of short-term bank loans		**(3,110,274)**	(1,350,000)
Long-term bank loans		**2,855,152**	1,305,643
Repayments of long-term bank loans		**(1,661,088)**	(824,284)
Principal repayments of finance lease obligations		**(1,958,143)**	(1,157,179)
Receipts of amounts due under subleases		**–**	84,246
Loans from an associate		**15,000**	50,000
Repayments of loans from an associate		**(15,000)**	(50,000)
Increase in notes payable		**411,250**	–
Dividend paid		**(97,339)**	(97,339)
Advances from minority shareholders		**167,730**	–
Net cash from/(used in) financing activities		**2,956,429**	(16,869)
Net increase/(decrease) in cash and cash equivalents		**573,987**	(72,495)
Cash and cash equivalents at 1 January		**1,330,980**	1,422,891
Exchange adjustment		**39,558**	(19,416)
Cash and cash equivalents at 31 December	35(a)	**1,944,525**	1,330,980

Consolidated Statement of Changes in Shareholders' Equity

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2002

	Note	Share capital (note 28) RMB'000	Other reserves (note 29) RMB'000	Retained profits (note 29) RMB'000	Total RMB'000
Balance at 1 January 2001					
As previously reported		4,866,950	1,223,227	1,098,847	7,189,024
Adjustment for land use rights	2(l)	–	(318,486)	–	(318,486)
As adjusted		4,866,950	904,741	1,098,847	6,870,538
Net gains/(losses) not recognised in the income statement					
Unrealised gain on cash flow hedges	40	–	5,396	–	5,396
Dividends relating to 2000	11	–	–	(97,339)	(97,339)
Profit attributable to shareholders		–	–	541,713	541,713
Transfer from retained profits to other reserves		–	3,362	(3,362)	–
Balance at 31 December 2001/ 1 January 2002		**4,866,950**	**913,499**	**1,539,859**	**7,320,308**
Net gains/(losses) not recognised in the income statement					
Revaluation surplus of fixed assets, net of tax		–	418,006	–	418,006
Revaluation surplus shared by minority shareholders	32	–	(12,981)	–	(12,981)
Revaluation deficit offset against previous revaluation surplus of fixed assets, net of tax		–	(301,639)	–	(301,639)
Unrealised losses on cash flow hedges	40	–	(33,621)	–	(33,621)
		–	69,765	–	69,765
Dividends relating to 2001	11	–	–	(97,339)	(97,339)
Profit attributable to shareholders		–	–	86,369	86,369
Transfer from retained profits to other reserves		–	21,391	(21,391)	–
Balance at 31 December 2002		**4,866,950**	**1,004,655**	**1,507,498**	**7,379,103**

1. Corporate Information

China Eastern Airlines Corporation Limited (the "Company"), was established in the People's Republic of China ("PRC") as a joint stock company limited by shares on 14 April 1995. The Company was formerly majority owned by Eastern Air Group Company ("EA Group"), which was under the supervision and control of the Civil Aviation Administration of China ("CAAC"). On 11 October 2002, EA Group merged with two other PRC airlines and formed China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise. After the merger, CEA Holding becomes the controlling shareholder of the Company. The Company and its subsidiaries (the "Group") are principally engaged in air transportation businesses.

2. Principal Accounting Policies

(a) Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The statutory accounts of the Group have been prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). In preparing these financial statements, appropriate restatements have been made to the Group's statutory accounts to conform with IFRS.

The consolidated financial statements have been prepared under historical cost convention as modified by the revaluation of fixed assets, short-term investments and derivative financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Group accounting

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

2. Principal Accounting Policies (Cont'd)

(b) Group accounting (Cont'd)

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note 2(m) for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless it cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses.

(ii) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

2. Principal Accounting Policies (Cont'd)

(c) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB"). Transactions in foreign currencies are translated at the applicable rates of exchange prevailing at the dates of the transactions, quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the rates prevailing at the balance sheet date as quoted by the People's Bank of China. Exchange differences are included in the income statement, except when deferred in equity as qualifying cash flow hedges.

(d) Revenue recognition and sales in advance of carriage

Passenger, cargo and mail revenues are recognised as traffic revenues when the transportation services are provided. The value of sold but unused tickets is included in the current liabilities as sales in advance of carriage.

Revenues from other operating businesses, including income derived from the provision of ground services and commission income are recognised when services are rendered. Commission income includes amounts earned from other carriers in respect of sales made by the Group's agents. The related commission payable to such agents are included as commission expenses in the income statement. Rental income from leasing office premises and cargo warehouses is recognised on a straight-line basis over the lease term.

Revenues are presented net of sales tax and civil aviation infrastructure levies.

Interest income is recognised on a time-proportion basis.

Rental income from subleases is recognised on a straight-line basis over the terms of the respective leases.

(e) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

In respect of the geographical segment, the analysis of turnover and operating profit by geographical segment is based on the following criteria:

2. Principal Accounting Policies (Cont'd)

(e) Segment reporting (Cont'd)

(i) Traffic revenue from domestic services within the PRC (excluding Hong Kong Special Administrative Region ("Hong Kong")) is attributed to the domestic operation. Traffic revenue from inbound and outbound services between the PRC and Hong Kong or overseas markets is attributed to the geographical area in which the relevant overseas origin/destination lies.

(ii) Other operating revenues from ticket handling services, airport ground services and other miscellaneous services are attributed on the basis of where the services are performed.

(f) Retirement benefits

The Group participates in defined contribution retirement schemes regarding pension and medical benefit for employees organised by the municipal governments of respective provinces. The contributions to the schemes are charged to the income statement as and when incurred.

In addition, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The cost of providing the aforementioned post-retirement benefits under the Group's defined benefit plan is actuarially determined and recognised over the employees' service period by using the projected unit credit method. Post-retirement benefit expenses recognised in the income statement include, if applicable, current service cost, interest cost, the expected return on plan assets, amortised actuarial gains and losses, the effect of any curtailment or settlement and past service cost.

(g) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill certain return conditions under relevant leases. In order to fulfill these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under operating leases are accrued and charged to operating profit over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhaul comprise mainly labour and materials. Differences between the estimated cost and the actual cost of the overhaul are included in the income statement in the period of overhaul.

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are charged to income statement as and when incurred.

2. Principal Accounting Policies (Cont'd)

(g) Maintenance and overhaul costs (Cont'd)

All other routine repairs and maintenance costs incurred in restoring such fixed assets to their normal working condition are charged to income statement as incurred.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(h) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the fixed assets are included in non-current liabilities as other liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(i) Taxation

The Group provides for taxation on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with the relevant tax rules and regulations applicable in the jurisdictions where the Group operates.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(j) Fixed assets

(i) Fixed assets are recognised initially at cost which comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

2. Principal Accounting Policies (Cont'd)

(j) Fixed assets (Cont'd)

Subsequent to the initial recognition, fixed assets are stated at fair value less accumulated depreciation and accumulated impairment losses. Independent valuations are performed at least every five years or sooner if considered necessary by the directors. In the intervening years, the directors review the carrying values of the fixed assets and adjustment is made where these are materially different from fair value. Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases in valuation of fixed assets are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the income statement. All other decreases in valuation are charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged.

(ii) Depreciation of fixed assets is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual value over their estimated useful lives. The annual depreciation charges are calculated as follows:-

Aircraft	– over 20 years to residual value of 5% of cost or revalued amount
Flight equipment	
– Engines	– over 20 years to nil residual value
– Other flight equipment	– over the expected useful lives to residual value of 5% of cost or revalued amount
Buildings	– over the expected useful lives of 15 to 35 years to residual value of 3% of cost or revalued amount
Other fixed assets and equipment	– over 5 to 20 years to residual value of 3% of cost or revalued amount

(iii) Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

(iv) The carrying amounts of assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Recoverable amount is the amount which the Group expects to recover from future use of the asset, including its residual value on disposal. When an impairment has occurred, their carrying amount is reduced to their recoverable amount. The recoverable amount is determined by discounting expected future cash flows to its present value. The amount of reduction to recoverable amount is charged to the income statement.

2. Principal Accounting Policies (Cont'd)

(k) Construction in progress

Construction in progress represents office buildings, various infrastructure projects under construction and plant and equipment pending installation. This includes the costs of construction and acquisition and interest capitalised. No depreciation is provided on construction in progress until the asset is completed and put into use.

(l) Lease prepayments

Lease prepayments represent acquisition costs of land use rights less accumulated amortisation. Amortisation is provided over the lease period of land use rights on a straight-line basis.

In 2002, land use rights are presented as operating leases and stated at historical cost less accumulated amortisation. The land use rights, which were revalued as part of the Company's restructuring in 1996 and recorded at valuation as a non-monetary assets in exchange for share capital of the Company, are now stated at historical cost which is nil. Retrospective adjustments have been made to reflect the change in accounting for land use rights. As a result, the shareholders' equity as at 1 January 2001 was reduced by RMB318,486,000 for the unamortised valuation of the land use rights. The effect of this adjustment on the income statements of the relevant years was not material and accordingly no adjustment has been made.

(m) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life up to a maximum of 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary or associate over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets up to a maximum of 20 years; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

2. Principal Accounting Policies (Cont'd)

(n) Advances on aircraft and flight equipment

Advance contract payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years are capitalised along with attributable interests, and transferred to fixed assets upon delivery of the aircraft.

(o) Borrowing costs

Interest attributable to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalised as an additional cost of the related asset. Interest is capitalised at the Group's weighted average interest rate on borrowings or, where applicable, the interest rate related to specific borrowings during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(p) Long-term bank deposits

Long-term bank deposits placed to secure future lease obligations are stated at cost and are classified as held-to-maturity financial assets.

(q) Zero coupon bonds

Zero coupon bonds purchased to secure and to settle future lease obligations are stated at acquisition cost plus discount amortised to date and are classified as held-to-maturity securities. The discount thereon is amortised over the period to maturity under the effective interest method and included as interest income in the income statement.

(r) Impairment of long lived assets

Fixed assets and other non-current assets, including goodwill are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(s) Flight equipment spare parts

Flight equipment spare parts are carried at weighted average cost less allowance for obsolescence and are expensed when used in operations. Allowance for obsolescence is provided for expendable spare parts at rates which depreciate costs, less an estimated residual value, over the estimated useful lives of the related aircraft.

2. Principal Accounting Policies (Cont'd)

(t) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(u) Short-term investments

Short-term investments are carried at fair value. Realised and unrealised gains or losses arising from the changes in fair value of these investments are recognised in the income statement in the period in which they arise.

(v) Cash and cash equivalents

Cash and short-term highly liquid investments, which are readily convertible into cash and have original maturities of three months or less at the date of acquisition, are classified as cash and cash equivalents. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

(w) Frequent flyer programme

The Group estimates the present value of the incremental cost of providing free travel awards entitled by members under a frequent flyer programme when free travel award levels are achieved based on accumulated mileage. The estimated incremental cost is recognised as an expense in the income statement and accrued as a liability in the balance sheet.

As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly to reflect the acquittal of the outstanding obligations.

(x) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(y) Leases

(i) A Group company is the lessee

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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2. Principal Accounting Policies (Cont'd)

(y) Leases (Cont'd)

(i) A Group company is the lessee (Cont'd)

Leased assets are depreciated using the straight-line method over their expected useful lives to residual values.

Leases of assets under which a significant portion of the lease risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease prepayments for land use rights are recorded at cost and amortised on a straight-line basis over the period of land use rights.

(ii) A Group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

(z) Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Derivative financial instrument that does not qualify for hedge accounting is accounted for as trading instrument and any unrealised gain or loss, being changes in fair value of the derivative, is recognised in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instrument that qualifies for hedge accounting and is designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, is accounted for as follows:-

2. Principal Accounting Policies (Cont'd)

(z) Derivative financial instruments (Cont'd)

(i) the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The cumulative gain or loss on the derivative financial instrument is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects net profit or loss.

(ii) the ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was related in equity is immediately transferred to the income statement.

(aa) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Revenues and Turnover

	Group	
	2002	2001
	RMB'000	RMB'000
Gross turnover	**13,814,709**	12,879,786
Less: Sales tax (note (a))	**(304,558)**	(298,587)
Civil aviation infrastructure levies (note (b))	**(431,162)**	(428,391)
Turnover	**13,078,989**	12,152,808
Rental income from operating subleases of aircraft (note 4)	**110,469**	125,742
Interest income (note 6)	**115,824**	124,419
Total revenues	**13,305,282**	12,402,969

(a) Pursuant to various PRC sales tax rules and regulations, the Group is required to pay PRC sales tax. Except for traffic revenues derived from inbound international and regional flights which are not subject to PRC sales tax, the Group's traffic revenues, commission income and ground service income are subject to PRC sales tax levied at rates ranging from 3% to 5%.

(b) The civil aviation infrastructure levies are paid to CAAC, at rates of 5% and 2% respectively for domestic and international/regional traffic revenues.

4. Other Operating Income

	Group 2002 RMB'000	Group 2001 RMB'000
Gain on disposal of aircraft and engines (note (a))	**115,904**	1,866
Rental income from operating subleases of aircraft	**110,469**	125,742
	226,373	127,608

(a) During the year, the Group disposed of two A310 aircraft (2001: two MD82 engines) to an unrelated third party. These two aircraft were subleased out to another unrelated third party under operating leases before their disposal.

5. Wages, Salaries and Benefits

	Group 2002 RMB'000	Group 2001 RMB'000
Wages, salaries and allowances	**897,843**	729,996
Contribution under defined contribution retirement schemes (note 33(a))	**98,876**	46,471
Post-retirement benefits (note 33(b)(iii))	**39,134**	92,404
Curtailment of medical benefit previously included in post-retirement benefit obligations	**–**	(95,975)
	1,035,853	772,896
Average number of employees for the year ended	**15,719**	14,852

6. Finance Costs, Net

	Group 2002 RMB'000	Group 2001 RMB'000
Interest charged on obligations under finance leases	**509,889**	646,288
Interest on bank loans		
– wholly repayable within five years	**174,395**	76,121
– not wholly repayable within five years	**222,702**	268,234
	397,097	344,355
Interest accrued on a long-term payable (note 31)	**10,802**	6,693
Interest on loans from an associate	**1,373**	1,268
Less: amounts capitalised into fixed assets and advances on aircraft and flight equipment	**(71,948)**	(59,810)
	847,213	938,794
Interest income	**(115,824)**	(124,419)
	731,389	814,375

The capitalisation rates range between 4.00% and 6.50% per annum (2001: 6.00% and 6.21% per annum).

7. Profit before Taxation

	Group	
	2002	2001
	RMB'000	RMB'000
Profit before taxation is stated after charging:–		
Depreciation of fixed assets		
– owned assets	**1,070,074**	1,012,847
– assets held under finance leases and for own use	**603,311**	647,020
– assets held under finance leases and subleased out under operating leases	**37,426**	59,910
Operating lease rentals		
– aircraft	**1,025,800**	925,122
– land and buildings	**98,955**	90,358
Amortisation of lease prepayments	**20,128**	26,615
Losses on disposal of other fixed assets	**27,129**	10,643
Amortisation of goodwill and negative goodwill	**2,202**	3,641
Allowances for obsolescence of flight equipment spare parts	**33,024**	21,152
Allowances for doubtful accounts	**41,529**	23,966
Auditors' remuneration	**6,360**	7,187
and after crediting:–		
Government grants received	**(54,810)**	–

8. Emoluments of Directors, Supervisors and Senior Management

(a) Directors' and supervisors' emoluments comprise the following:-

	Group	
	2002	2001
	RMB'000	RMB'000
Emoluments for executive directors		
– Salaries, allowances and benefits in kind	**375**	425
– Bonuses	**82**	112
Emoluments for supervisors		
– Salaries, allowances and benefits in kind	**42**	37
– Bonuses	**13**	8
	512	582

During the year ended 31 December 2002 and 2001, no directors and supervisors waived their emoluments.

8. Emoluments of Directors, Supervisors and Senior Management (Cont'd)

(b) The five highest paid individuals of the Group are as follows:-

	Number of individuals	
	2002	2001
Directors	**2**	2
Non-directors and non-supervisors	**3**	3
	5	5

(c) The emoluments of the five highest paid individuals:–

Two (2001: two) of the Group's five highest paid individuals in 2002 are executive directors whose remunerations are included in the directors' emoluments above. Details of the remuneration of the remaining three (2001: three) highest paid individuals are as follows:-

	Group	
	2002	2001
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**629**	500
Bonuses	**100**	74
	729	574

During the year ended 31 December 2002, no emoluments were paid by the Group to the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2001: nil).

9. Taxation

(a) Taxation is (charged)/credited to the consolidated income statement as follows:-

	Group	
	2002	2001
	RMB'000	RMB'000
Provision for PRC income tax – current year	**(71,061)**	(4,917)
Deferred taxation (note 30)		
– current year	**17,570**	(38,668)
– adjustment for change in enacted tax rate (note (i))	**–**	306,422
	17,570	267,754
Share of tax attributable to associates (note 16)	**(947)**	(1,383)
	(54,438)	261,454

(i) Under a preferential tax policy in Pudong, Shanghai, the Company is entitled to a reduced income tax rate of 15% with effect from 1 July 2001.

(ii) 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.

(iii) The difference between the actual taxation (charge)/credit in the consolidated income statement and the amounts which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:-

	Group	
	2002	2001
	RMB'000	RMB'000
Profit before tax	**262,894**	313,583
Tax calculated at enacted tax rate of 15%	**(39,434)**	(47,037)
Effect attributable to a subsidiary and associates charged at a tax rate of 33%	**(11,101)**	(14,751)
Adjustments:-		
Effect on deferred taxation brought forward due to the reduction of enacted income tax rate	**–**	306,422
Utilisation of previously unrecognised tax losses of subsidiaries	**36,953**	20,302
Expired tax losses not deductible for tax purposes	**(15,185)**	–
Expenses not deductible for tax purposes	**(15,799)**	–
Unrecognised tax loss of an associate	**(11,347)**	–
Others	**1,475**	(3,482)
Tax (charge)/credit	**(54,438)**	261,454

9. Taxation (Cont'd)

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

(c) In accordance with the relevant PRC tax regulations, the operating lease rentals and the interest element of finance leases and bank loans paid/payable to foreign enterprises by the Group is subject to Foreign Enterprise Income Tax of PRC. This tax should be withheld by the Group at the time of payment and paid on behalf of the lessors/lenders. Pursuant to the Circular (2000) No. 2551 issued by the State Tax Bureau, lease payments made by aviation companies to foreign enterprises in respect of lease arrangements entered into prior to 1 September 1999 are exempt from the payment of any withholding tax. Majority of the Group's finance and operating lease arrangements were executed prior to 1 September 1999 and hence are fully exempt from PRC withholding tax. Withholding tax payable in respect of the leases arrangements entered into on or after 1 September 1999 are charged to the income statement as incurred.

10. Basic Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB86,369,000 (2001: RMB541,713,000) and 4,866,950,000 (2001: 4,866,950,000) shares in issue during the year. The Company has no potential dilutive ordinary shares.

11. Dividends

The dividends recognised in the year ended 31 December 2002 represent the final dividend of RMB0.02 per share totalling 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.

On 7 April 2003, the Board of Directors proposed a final dividend of RMB0.02 per share totalling RMB97,339,000 for the year ended 31 December 2002. The financial statements do not reflect this dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2003.

12. Fixed Assets

	Group				
	Aircraft and flight equipment				
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other fixed assets and equipment RMB'000	Total RMB'000
Valuation					
At 1 January 2002	11,431,771	12,826,400	1,663,930	1,804,292	27,726,393
Reclassification upon completion of finance lease terms	1,625,958	(1,625,958)	–	–	–
Transfer from construction in progress (note 13)	–	–	124,281	96,492	220,773
Additions	1,622,607	–	29,179	177,416	1,829,202
Revaluation (deficit)/surplus, net	(153,157)	118,306	–	–	(34,851)
Disposals	(386,238)	–	(42,514)	(27,264)	(456,016)
At 31 December 2002	14,140,941	11,318,748	1,774,876	2,050,936	29,285,501
Accumulated depreciation					
At 1 January 2002	3,300,905	3,329,571	184,717	688,520	7,503,713
Reclassification upon completion of finance lease terms	891,447	(891,447)	–	–	–
Charge for the year	788,866	640,737	68,680	212,528	1,710,811
Disposals	(366,926)	–	(4,677)	(23,370)	(394,973)
At 31 December 2002	4,614,292	3,078,861	248,720	877,678	8,819,551
Net book value at 31 December 2002	**9,526,649**	**8,239,887**	**1,526,156**	**1,173,258**	**20,465,950**
Net book value at 31 December 2001	8,130,866	9,496,829	1,479,213	1,115,772	20,222,680
	Company				
Valuation					
At 1 January 2002	11,177,115	12,826,400	1,231,695	1,146,151	26,381,361
Reclassification upon completion of finance lease terms	1,625,958	(1,625,958)	–	–	–
Transfer from construction in progress (note 13)	–	–	45,413	78,894	124,307
Transfer to a subsidiary	(1,405,968)	–	–	–	(1,405,968)
Additions	1,595,828	–	27,911	144,508	1,768,247
Revaluation (deficit)/surplus, net	(204,063)	118,306	–	–	(85,757)
Disposals	(386,238)	–	(30,696)	(16,801)	(433,735)
At 31 December 2002	12,402,632	11,318,748	1,274,323	1,352,752	26,348,455
Accumulated depreciation					
At 1 January 2002	3,122,172	3,329,571	128,344	427,655	7,007,742
Reclassification upon completion of finance lease terms	891,447	(891,447)	–	–	–
Transfer to a subsidiary	(398,360)	–	–	–	(398,360)
Charge for the year	684,997	640,737	49,917	163,677	1,539,328
Disposals	(366,926)	–	–	(15,243)	(382,169)
At 31 December 2002	3,933,330	3,078,861	178,261	576,089	7,766,541
Net book value at 31 December 2002	**8,469,302**	**8,239,887**	**1,096,062**	**776,663**	**18,581,914**
Net book value at 31 December 2001	8,054,943	9,496,829	1,103,351	718,496	19,373,619

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12. Fixed Assets (Cont'd)

(a) On 31 December 2002, the Group's fixed assets were revalued by the directors of the Company on a market value or replacement cost basis. As a result of the revaluation, the carrying value of the Group's fixed assets as at 31 December 2002 was reduced by RMB34,851,000. A net revaluation surplus of RMB136,902,000 was credited to the revaluation reserve and a deficit of RMB171,753,000 was charged to the income statement accordingly.

Had the Group's fixed assets been stated at cost less accumulated depreciation and impairment losses as at 31 December 2002, the carrying amounts of fixed assets would have been RMB20,194,500,000 (2001: RMB19,888,539,000).

(b) Certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB 3,272,123,000 (2001: RMB3,459,592,000) as at 31 December 2002 were pledged as collateral under certain loan agreements (see note 26).

(c) Included in the additions of fixed assets of the Group and the Company were capitalised interests of RMB33,377,000 (2001: RMB50,577,000) transferred from construction in progress and advances on aircraft and flight equipment, of which RMB13,362,000 were capitalised during the year ended 31 December 2002 (2001: RMB22,695,000).

13. Construction in Progress

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**347,406**	476,251	**190,394**	408,277
Additions	**287,179**	427,648	**43,698**	315,005
Acquisition of a passenger carriage business	**–**	6,420	**–**	6,420
Interest capitalised	**–**	9,000	**–**	9,000
Transfer to lease prepayments (note 14)	**–**	(370,181)	**–**	(370,181)
Transfer to fixed assets (note 12)	**(220,773)**	(201,732)	**(124,307)**	(178,127)
At 31 December	**413,812**	347,406	**109,785**	190,394

14. Lease Prepayments

Lease prepayments represent unamortised prepayments for land use rights.

The Group's and the Company's land use rights are located in the PRC and majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2002, majority of these land use rights had remaining terms ranging from 44 to 50 years (2001: from 45 to 49 years) .

Certificates of certain land use rights of the Group with carrying amount of nil as at 31 December 2002 are currently registered under the name of EA Group. The procedures to change the registration of the land use rights certificates with the relevant municipal land bureau are currently being addressed by CEA Holding. Until the completion of these transfer procedures, the Group is unable to assign or pledge these land use rights. However, the Group currently has no need to assign and no intention to pledge these land use rights. In addition, the Group is entitled to lawfully and validly occupy and use these lands for its daily operations in spite of the fact that the procedures of changing the registration of these land use rights have not been fully completed. Accordingly, the directors of the Company do not believe this issue has any material impact on the financial position of the Group.

15. Investments in Subsidiaries

	Company	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	**1,378,420**	1,062,900
Amounts due from subsidiaries	**642,138**	130,274
	2,020,558	1,193,174

15. Investments in Subsidiaries (Cont'd)

Particulars of the principal subsidiaries, all of which are limited companies established and operating in the PRC, are as follows:-

Company	**Place and date of establishment**	**Paid-up capital** RMB'000	**Attributable equity interest** **2002**	2001	**Principal activities**
China Cargo Airlines Ltd.	PRC 22 July 1998	500,000	**70%**	70%	Provision of cargo carriage services
China Eastern Airlines Jiangsu Co. Ltd.	PRC 3 May 1993	236,579	**55%**	55%	Provision of airline services
Eastern Airlines Industrial Co., Ltd.	PRC 18 March 1998	70,000	**86%**	80%	Provision of hotel services to crew members
Shanghai Eastern Flight Training Co., Ltd.	PRC 18 December 1995	358,000	**95%**	95%	Provision of flight training services
Shanghai Eastern Airlines Investment Co., Ltd.	PRC 8 May 2002	300,000	**98%**	–	Investment holding

16. Investments in Associates

	Group **2002** **RMB'000**	2001 RMB'000	**Company** **2002** **RMB'000**	2001 RMB'000
Unlisted investment, at cost	**–**	–	**361,020**	106,364
Share of net assets	**272,098**	109,527	**–**	–
Goodwill	**59,472**	–	**–**	–
	331,570	109,527	**361,020**	106,364

16. Investments in Associates (Cont'd)

Movements in investments in associates are as follows:

	Group	
	2002	2001
	RMB'000	RMB'000
At 1 January	**109,527**	–
Cost of investment	**254,656**	106,364
Share of results before tax	**(31,666)**	4,546
Share of tax	**(947)**	(1,383)
At 31 December	**331,570**	109,527

The share of results before tax includes RMB2,586,000 (2001: nil) representing the amortisation charge of goodwill in respect of acquisition of associates.

Particular of the principal associates, all of which are limited companies established and operating in the PRC, are as follows:–

Company	**Place and date of establishment**	**Paid-up capital** RMB'000	**Attributable equity interest** **2002**	2001	**Principal activities**
Eastern Air Group Finance Co., Ltd. ("EAGF")	PRC 6 December 1995	400,000	**25%**	25%	Provision of financial services to companies comprising CEA Holding
China Eastern Airlines Wuhan Company Limited	PRC 16 August 2002	600,000	**40%**	–	Provision of air transportation services
Eastern Aviation Advertising Services Co. ("EAASC")	PRC 4 March 1986	10,000	**45%**	–	Provision of aviation advertising agency services

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17. Goodwill and Negative Goodwill

	Group and Company		
	Goodwill RMB'000	Negative Goodwill RMB'000	Total RMB'000
Cost			
At 1 January 2002 and 31 December 2002	113,105	(55,245)	57,860
Accumulated amortisation			
At 1 January 2002	16,965	(2,014)	14,951
Charge for the year	5,656	(3,454)	2,202
At 31 December 2002	22,621	(5,468)	17,153
Net book value at 31 December 2002	90,484	(49,777)	40,707
Net book value at 31 December 2001	96,140	(53,231)	42,909

18. Other Long-term Receivables and Investments

	Group		Company	
	2002 RMB'000	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
Long-term bank deposits (note 25)	**1,463,044**	1,255,005	**1,463,044**	1,255,005
US Treasury zero coupon bonds (note 25)	**542,124**	501,722	**542,124**	501,722
Deposits for aircraft under operating leases	**89,273**	97,370	**69,170**	78,031
Prepaid custom duty and value added tax	**52,501**	63,340	**52,501**	63,340
Prepayments and other long-term receivables	**76,826**	68,117	**59,151**	46,878
	2,223,768	1,985,554	**2,185,990**	1,944,976

19. Trade Receivables Less Allowance for Doubtful Accounts

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

As at 31 December 2002, the aging analysis of the trade receivables were as follows:-

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than 31 days	**555,787**	525,006	**317,705**	363,643
31 to 60 days	**200,702**	91,531	**50,191**	28,720
61 to 90 days	**70,333**	28,384	**39,297**	13,397
Over 90 days	**138,404**	140,913	**108,441**	126,756
	965,226	785,834	**515,634**	532,516

20. Prepayments and Other Receivables

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from related companies (note 38(a)(i))	**46,159**	35,544	**42,632**	30,454
Discounts on aircraft acquisitions receivable	**78,822**	204,550	**78,822**	204,550
Receivables from provision of ground services	**125,418**	71,465	**68,813**	41,140
Prepaid aircraft operating lease rentals	**111,908**	94,538	**92,881**	75,466
Receivable on aircraft operating lease rentals	**8,034**	33,828	**8,034**	33,828
Advance payment for equity interests	**112,500**	12,500	**112,500**	12,500
Other	**332,208**	325,630	**212,512**	284,890
	815,049	778,055	**616,194**	682,828

21. Short-term Investments

Short-term investments are valued at market value at the close of business or 31 December by reference to stock exchange quoted bid prices.

Short-term investments are classified as current assets because they are expected to be realised within twelve months of the balance sheet date.

22. Trade Payables

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

23. Other Payables and Accrued Expenses

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due to related companies (note 38 (a) (i))	**339,133**	369,226	**313,961**	312,821
Accrued operating expenses	**1,241,948**	958,641	**967,536**	835,935
Payable for land use rights	**3,093**	107,624	**–**	66,000
Current portion of accrued aircraft overhaul expenses (note 24)	**304,129**	266,016	**304,129**	256,337
Duties and levies payable	**55,279**	78,727	**47,970**	70,902
Current portion of a long-term payable (note 31)	**30,000**	30,000	**30,000**	30,000
Current portion of post-retirement benefits obligation (note 33(b))	**15,753**	13,922	**15,290**	13,610
Provision for staff housing allowance (note 34)	**80,179**	80,179	**78,198**	78,198
Accrued salaries, wages and benefits	**125,462**	76,592	**114,236**	65,743
Flight equipment purchase payable	**167,390**	147,285	**164,710**	145,196
Amounts due to minority shareholders	**155,486**	–	**–**	–
Other	**273,181**	159,168	**202,339**	78,264
	2,791,033	2,287,380	**2,238,369**	1,953,006

24. Accrued Aircraft Overhaul Expenses

	Group RMB'000	**Company** RMB'000
At 1 January 2002	**459,019**	358,740
Additional provisions	**124,235**	118,564
Utilised during the year	**(35,441)**	(35,441)
At 31 December 2002	**547,813**	441,863

	Group		**Company**	
	2002 RMB'000	2001 RMB'000	**2002** RMB'000	2001 RMB'000
Total accrued aircraft overhaul expenses	**547,813**	459,019	**441,863**	358,740
Less: current portion (note 23)	**(304,129)**	(266,016)	**(304,129)**	(256,337)
Long-term portion	**243,684**	193,003	137,734	102,403

25. Obligations under Finance Leases

At 31 December 2002, the Group and the Company had 19 aircraft (2001: 24 aircraft) under finance leases. Under the terms of the leases, the Group and the Company have the option to purchase, at or near the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessor's defined cost of the aircraft.

The future minimum lease payments, interest and present value of minimum lease payments which are principally denominated in foreign currencies, under these finance leases as at 31 December 2002 were as follows:-

	Group and Company					
	2002			2001		
	Minimum lease payments RMB'000	**Interest** RMB'000	**Present value of minimum lease payments** RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	**2,733,720**	**486,661**	**2,247,059**	2,522,578	586,906	1,935,672
In the second year	**1,142,846**	**307,758**	**835,088**	2,710,134	479,504	2,230,630
In the third to fifth year inclusive	**4,524,438**	**519,489**	**4,004,949**	3,800,792	709,564	3,091,228
After the fifth year	**1,162,325**	**65,455**	**1,096,870**	2,775,438	161,617	2,613,821
Total	**9,563,329**	**1,379,363**	**8,183,966**	11,808,942	1,937,591	9,871,351
Less: amount repayable within one year	**(2,733,720)**	**(486,661)**	**(2,247,059)**	(2,522,578)	(586,906)	(1,935,672)
Long-term portion	**6,829,609**	**892,702**	**5,936,907**	9,286,364	1,350,685	7,935,679

25. Obligations under Finance Leases (Cont'd)

At 31 December 2002, the Group and the Company had U.S. Treasury zero coupon bonds and long-term bank deposits totalling RMB 2,005,168,000 (2001: RMB1,756,727,000) pledged as securities under certain finance lease arrangements (see note 18). All of these bank deposits and the U.S. Treasury zero coupon bonds will be used to meet future lease obligations as they fall due. The U.S. Treasury zero coupon bonds will mature in February 2004.

In addition, the Group's finance lease obligations are secured by the related aircraft, the relevant insurance policies and bank guarantees.

26. Long-term Bank Loans

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Bank loans		
– secured	**2,589,504**	2,850,567
– unsecured	**3,905,127**	2,450,000
Total	**6,494,631**	5,300,567
Less: amount repayable within one year	**(1,261,902)**	(361,236)
Long-term portion	**5,232,729**	4,939,331
The bank loans are repayable as follows:–		
Within one year	**1,261,902**	361,236
In the second year	**1,709,114**	555,719
In the third to fifth year inclusive	**2,367,721**	2,517,957
After the fifth year	**1,155,894**	1,865,655
Total	**6,494,631**	5,300,567

26. Long-term Bank Loans (Cont'd)

The terms of long-term bank loans can be summarised as follows:–

	Interest rate and final maturities	Group and Company 2002 RMB'000	Group and Company 2001 RMB'000
Renminbi denominated bank loans:			
Loans for construction projects	Fixed interest rate of 6.21% per annum as at 31 December 2002; 7 to 13-year loans with final maturities through to 2012	**800,000**	2,000,000
Loans for the purchases of aircraft	Fixed interest rate of 5.61% per annum as at 31 December 2002; 3- year loan with final maturity in 2003	**250,000**	450,000
		1,050,000	2,450,000
U.S. dollar denominated bank loans:			
Loans for the purchases of aircraft	Fixed interest rates ranging from 6.13% to 8.45% per annum as at 31 December 2002; 10 to 12-year loans with final maturities through to 2008	**5,444,631**	2,850,567
Total long-term bank loans		**6,494,631**	5,300,567

Bank loans totalling RMB2,589,504,000 at 31 December 2002 (2001: RMB2,850,567,000) of the Group and the Company for the purchases of aircraft were secured by the related aircraft (see note 12(b)).

26. Long-term Bank Loans (Cont'd)

Bank loans were guaranteed by the following parties:–

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Renminbi denominated bank loans guaranteed by EA Group	**1,050,000**	2,450,000
U.S. dollar denominated bank loans guaranteed by third parties:		
Export-Import Bank of the United States	**1,488,745**	1,715,004
China Industrial and Commercial Bank	**144,645**	166,393
China Construction Bank	**100,399**	113,480
	2,783,789	4,444,877

27. Short-term Bank Loans

Short-term bank loans of the Group and the Company are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to such loans were between 2.06 % and 5.31 % per annum (2001: 4.58% and 5.02% per annum). During the year ended 31 December 2002, the weighted average interest rate on short-term bank loans was 4.39 % per annum (2001: 4.91% per annum).

28. Share Capital

	2002	2001
	RMB'000	RMB'000
Registered, issued and fully paid of RMB1.00 each A share		
State-owned shares held by CEA Holding	**3,000,000**	3,000,000
Shares held by public	**300,000**	300,000
	3,300,000	3,300,000
Overseas listed foreign H shares	**1,566,950**	1,566,950
	4,866,950	4,866,950

Pursuant to articles 49 and 50 of the Company's Articles of Association, the A shares held by CEA Holding, employees, the public and H shares are all registered ordinary shares, carrying equal rights.

29. Reserves

	Share premium RMB'000	Statutory common reserve fund (note (a)) RMB'000	Statutory common welfare fund (note (b)) RMB'000	Discretionary common reserve fund (note (c)) RMB'000	Revaluation reserve RMB'000	Capital reserve RMB'000	Hedging reserve (note 40) RMB'000	Retained profits RMB'000	Total RMB'000
Group									
At 1 January 2002									
As previously reported	1,006,455	96,113	96,113	27,908	–	–	5,396	1,539,859	2,771,844
Adjustment for land use rights (note 2(l))	–	–	–	–	–	(318,486)	–	–	(318,486)
As adjusted	1,006,455	96,113	96,113	27,908	–	(318,486)	5,396	1,539,859	2,453,358
Reclassification of revaluation reserve (note (e))	–	–	–	–	401,571	(401,571)	–	–	–
Revaluation surplus of fixed assets									
– gross	–	–	–	–	491,772	–	–	–	491,772
– tax	–	–	–	–	(73,766)	–	–	–	(73,766)
Revaluation surplus after tax shared by minority shareholders	–	–	–	–	(12,981)	–	–	–	(12,981)
Revaluation deficit offset against previous revaluation surplus of fixed assets									
– gross	–	–	–	–	(354,870)	–	–	–	(354,870)
– tax	–	–	–	–	53,231	–	–	–	53,231
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(38,602)	–	(38,602)
– tax	–	–	–	–	–	–	4,981	–	4,981
Dividends relating to 2001 (note 11)	–	–	–	–	–	–	–	(97,339)	(97,339)
Profit attributable to shareholders	–	–	–	–	–	–	–	86,369	86,369
Transfer from retained profits to reserves (note (d))	–	10,696	10,614	81	–	–	–	(21,391)	–
At 31 December 2002	1,006,455	106,809	106,727	27,989	504,957	(720,057)	(28,225)	1,507,498	2,512,153

29. Reserves (Cont'd)

	Share premium RMB'000	Statutory common reserve fund (note (a)) RMB'000	Statutory common welfare fund (note (b)) RMB'000	Discretionary common reserve fund (note (c)) RMB'000	Revaluation reserve RMB'000	Capital reserve RMB'000	Hedging reserve (note 40) RMB'000	Retained profits RMB'000	Total RMB'000
Company									
At 1 January 2002									
As previously reported	1,006,455	77,214	77,214	27,908	42,881	–	5,396	1,526,580	2,763,648
Adjustment for land use rights (note 2(l))	–	–	–	–	–	(318,486)	–	–	(318,486)
As adjusted	1,006,455	77,214	77,214	27,908	42,881	(318,486)	5,396	1,526,580	2,445,162
Reclassification of revaluation reserve (note (e))	–	–	–	–	401,571	(401,571)	–	–	–
Revaluation surplus of fixed assets									
– gross	–	–	–	–	440,866	–	–	–	440,866
– tax	–	–	–	–	(66,130)	–	–	–	(66,130)
Revaluation deficit offset against previous revaluation surplus of fixed assets									
– gross	–	–	–	–	(354,870)	–	–	–	(354,870)
– tax	–	–	–	–	53,231	–	–	–	53,231
Unrealised losses on cashflow hedges (note 40)									
– gross	–	–	–	–	–	–	(38,602)	–	(38,602)
– tax	–	–	–	–	–	–	4,981	–	4,981
Dividends relating to 2001 (note 11)	–	–	–	–	–	–	–	(97,339)	(97,339)
Loss for the year	–	–	–	–	–	–	–	(131,337)	(131,337)
At 31 December 2002	1,006,455	77,214	77,214	27,908	517,549	(720,057)	(28,225)	1,297,904	2,255,962

29. Reserves (Cont'd)

	Share premium RMB'000	Statutory common reserve fund (note (a)) RMB'000	Statutory common welfare fund (note (b)) RMB'000	Discretionary common reserve fund (note (c)) RMB'000	Revaluation reserve RMB'000	Capital reserve RMB'000	Hedging reserve (note 40) RMB'000	Retained profits RMB'000	Total RMB'000
Group									
At 1 January 2001									
As previously reported	1,006,455	94,432	94,432	27,908	–	–	–	1,098,847	2,322,074
Adjustment for land use rights (note 2(l))	–	–	–	–	–	(318,486)	–	–	(318,486)
As adjusted	1,006,455	94,432	94,432	27,908	–	(318,486)	–	1,098,847	2,003,588
Unrealised gain on cash flow hedges	–	–	–	–	–	–	5,396	–	5,396
Dividends relating to 2000 (note 11)	–	–	–	–	–	–	–	(97,339)	(97,339)
Profit attributable to shareholders	–	–	–	–	–	–	–	541,713	541,713
Transfer from retained profits to reserves (note (d))	–	1,681	1,681	–	–	–	–	(3,362)	–
At 31 December 2001	1,006,455	96,113	96,113	27,908	–	(318,486)	5,396	1,539,859	2,453,358
Company									
At 1 January 2001									
As previously reported	1,006,455	77,214	77,214	27,908	42,881	–	–	1,153,491	2,385,163
Adjustment for land use rights (note 2(l))	–	–	–	–	–	(318,486)	–	–	(318,486)
As adjusted	1,006,455	77,214	77,214	27,908	42,881	(318,486)	–	1,153,491	2,066,677
Unrealised gain on cash flow hedges	–	–	–	–	–	–	5,396	–	5,396
Dividends relating to 2000 (note 11)	–	–	–	–	–	–	–	(97,339)	(97,339)
Profit for the year	–	–	–	–	–	–	–	470,428	470,428
At 31 December 2001	1,006,455	77,214	77,214	27,908	42,881	(318,486)	5,396	1,526,580	2,445,162

29. Reserves (Cont'd)

(a) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its profit attributable to shareholders, as determined under the PRC Accounting Regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(b) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit attributable to shareholders, as determined under the PRC Accounting Regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

(c) The Company is allowed to transfer 5% of the profit attributable to shareholders as determined under the PRC Accounting Regulations, to discretionary common welfare fund. The transfer to this fund is subject to the approval by shareholders at meetings.

(d) For the year ended 31 December 2002, under the PRC Accounting Regulations, the Company recorded a profit attributable to shareholders which had been applied to make good previous years' losses. Accordingly, no profit appropriation has been made for the year ended 31 December 2002. Transfer from retained profits to reserves for the year represents the profit appropriation to reserves of a subsidiary of the Company.

(e) Fixed assets of the Group as at 30 June 1996 were revalued as part of the restructuring of the Group, which resulted in a revaluation surplus that formed part of the Company's share capital. The reclassification of the revaluation reserve out of capital reserve has been made in 2002 by reducing "capital reserve" and increasing "revaluation reserve". This change has been done to better present the total amount of revaluation reserve that the Company has since its formation. The revaluation surplus recognised during the restructuring was partially utilised to offset against the revaluation deficit of the same assets arising in 2002 (refer to 12(a)). Additional valuation surplus arising in 2002 was credited to the revaluation reserve.

30. Deferred Taxation

As at 31 December 2002, the deferred tax assets/(liabilities) were made up of taxation effects of the followings:-

		2002			Restated (Note 2(l)) 2001	
	Current RMB'000	**Non-current RMB'000**	**Total RMB'000**	Current RMB'000	Non-current RMB'000	Total RMB'000
Group						
Deferred tax assets:-						
Tax losses carried forward	**–**	**174,472**	**174,472**	–	141,348	141,348
Provision for obsolete flight equipment and spare parts	**–**	**32,608**	**32,608**	–	32,008	32,008
Repair cost on flight equipment	**–**	**203,265**	**203,265**	–	168,877	168,877
Provision for post-retirement benefits	**2,363**	**82,417**	**84,780**	2,088	77,870	79,958
Provision for staff housing benefits	**12,384**	**–**	**12,384**	12,384	–	12,384
Other accrued expenses	**57,507**	**4,981**	**62,488**	93,056	–	93,056
	72,254	**497,743**	**569,997**	107,528	420,103	527,631
Less: unrecognised assets	**–**	**–**	**–**	–	(38,256)	(38,256)
	72,254	**497,743**	**569,997**	107,528	381,847	489,375
Deferred tax liabilities:-						
Provision for overhaul	**–**	**(125,887)**	**(125,887)**	–	(113,161)	(113,161)
Depreciation and amortisation	**–**	**(665,083)**	**(665,083)**	–	(597,335)	(597,335)
Others	**–**	**(11,852)**	**(11,852)**	–	(13,720)	(13,720)
	–	**(802,822)**	**(802,822)**	–	(724,216)	(724,216)
Deferred tax assets/(liabilities), net	**72,254**	**(305,079)**	**(232,825)**	107,528	(342,369)	(234,841)
Company						
Deferred tax assets:–						
Tax losses carried forward	**–**	**174,472**	**174,472**	–	119,703	119,703
Provision for obsolete flight equipment and spare parts	**–**	**35,588**	**35,588**	–	37,133	37,133
Repair cost on flight equipment	**–**	**204,297**	**204,297**	–	170,980	170,980
Provision for post-retirement benefits	**2,294**	**74,952**	**77,246**	2,088	55,460	57,548
Provision for staff housing benefits	**11,730**	**–**	**11,730**	11,730	–	11,730
Other accrued expenses	**23,206**	**4,981**	**28,187**	73,291	–	73,291
	37,230	**494,290**	**531,520**	87,109	383,276	470,385
Deferred tax liabilities:–						
Provision for overhaul	**–**	**(90,735)**	**(90,735)**	–	(100,485)	(100,485)
Depreciation and amortisation	**–**	**(646,874)**	**(646,874)**	–	(594,843)	(594,843)
Others	**–**	**(11,852)**	**(11,852)**	–	(13,720)	(13,720)
	–	**(749,461)**	**(749,461)**	–	(709,048)	(709,048)
Deferred tax assets/(liabilities), net	**37,230**	**(255,171)**	**(217,941)**	87,109	(325,772)	(238,663)

30. Deferred Taxation (Cont'd)

Movement in net deferred taxation liability is as follows:-

	Group		Company	
		As restated (Note 2(l))		As restated (Note 2(l))
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**234,841**	502,595	**238,663**	505,570
(Credited)/charged to income statement				
– current year (note 9(a))	**(17,570)**	38,668	**(28,640)**	39,515
– adjustment for change in enacted tax rate	**–**	(306,422)	**–**	(306,422)
Charged/(credited) to equity				
– net surplus on revaluation	**20,535**	–	**12,899**	–
– unrecognised losses on cash flow hedges	**(4,981)**	–	**(4,981)**	–
At 31 December	**232,825**	234,841	**217,941**	238,663

31. Long-term Payable

	Group and Company	
	2002	2001
	RMB'000	RMB'000
At 1 January	**191,448**	–
Purchase consideration on acquisition of a passenger carriage business	**–**	270,000
Less: Interest element	**–**	(55,245)
Net present value at time of acquisition	**–**	214,755
Less: instalments paid during the year	**(30,000)**	(30,000)
	161,448	184,755
Interest accrued during the year (note 6)	**10,802**	6,693
At 31 December	**172,250**	191,448
Less: Current portion (note 23)	**(30,000)**	(30,000)
Long-term portion	**142,250**	161,448

32. Minority Interests

	Group	
	2002	2001
	RMB'000	RMB'000
At January	**257,205**	223,881
Contributions from minority shareholders	**12,244**	–
Share of profits of subsidiaries	**122,087**	33,324
Share of revaluation surplus	**12,981**	–
At 31 December	**404,517**	257,205

33. Retirement Benefit Plans and Post-Retirement Benefits

(a) Defined contribution retirement schemes

(i) Pension

Substantially all of the Group employees are eligible to participate in the Group's retirement schemes. The Group participates in defined contribution retirement schemes organised by the municipal governments of the various provinces in which the Group operates. The Group is required to make annual contributions to the schemes at a rate of 13% of salary costs including certain allowances calculated in the prior year. Employees contribute approximately 6% of their basic salary. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2002, the Group's pension cost charged to the income statement amounted to RMB82,876,000 (2001: RMB28,471,000).

(ii) Medical insurance

In 1998, the State Council announced that each municipal government should introduce a medical insurance scheme for employees and retirees of all enterprises, of which the detailed policies and regulations were to be set out by individual municipal government.

In the end of 2000, the Shanghai Municipal Government promulgated the detailed policies and regulations of its medical insurance scheme. In January 2001, the Group joined this scheme under which the Group and its employees contribute approximately 12% and 2% of the employee's basic salaries to the scheme respectively. The Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2002, the Group's medical insurance contribution charged to the income statement amounted to approximately RMB16,000,000 (2001: RMB18,000,000).

33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

(b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activities subsidies as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates including the rate of inflation, discount rate, employees' turnover ratio as well as mortality rate. The transitional obligation arising from the first adoption of International Accounting Standard ("IAS") 19 (Revised) "Employee Benefits" in 1997 has been recognised on a straight-line basis over a period of five years.

(i) As at 31 December 2002, the post-retirement benefit obligations recognised in the balance sheets of the Group and the Company were as follows:–

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Present value of unfunded post-retirement benefit obligations	**538,794**	534,514	**462,272**	462,434
Unrecognised actuarial gains	**21,403**	–	**18,462**	–
	560,197	534,514	**480,734**	462,434
Payments made in the year	**(15,520)**	(13,451)	**(14,666)**	(12,966)
Post-retirement benefit obligations	**544,677**	521,063	**466,068**	449,468
Less: current portion (note 23)	**(15,753)**	(13,922)	**(15,290)**	(13,610)
Post-retirement benefit obligations – long-term portion	**528,924**	507,141	**450,778**	435,858

(ii) Changes in post-retirement benefit obligations are as follows:–

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**521,063**	538,085	**449,468**	477,357
Curtailment of medical benefit (note 5)	**–**	(95,975)	**–**	(82,485)
Current service cost	**13,081**	18,445	**11,148**	15,852
Interest on obligation	**26,053**	31,129	**22,204**	26,754
Transitional obligation recognised in the year	**–**	42,830	**–**	42,830
Payments made in the year	**(15,520)**	(13,451)	**(14,666)**	(12,966)
Transfer to subsidiaries	**–**	–	**(2,086)**	(17,874)
At 31 December	**544,677**	521,063	**466,068**	449,468

33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

(b) Post-retirement benefits (Cont'd)

(iii) The costs of post-retirement benefits were recognised under wages, salaries and benefits in the consolidated income statement for the year as follows:-

	Group	
	2002	2001
	RMB'000	RMB'000
Current service cost	**13,081**	18,445
Interest on obligation	**26,053**	31,129
Transitional obligation recognised in the year	**–**	42,830
Total (note 5)	**39,134**	92,404

(iv) Principal actuarial assumptions at the balance sheet date are as follows:-

	2002	2001
Discount rate	**5.00%**	7.00%
Annual rate of increase of per capita benefit payment	**1.50%**	3.50%
Employees turnover rate	**3.00%**	1.80%

34. Staff Housing Benefits

In 1998 and 2000, the State Council of the PRC issued circulars stipulating that distribution of quarters to employees at discounted prices should be withdrawn and cash allowance should be made to employees thereafter. Eligible staff who have not been allocated with any quarters or who have not been allocated with a quarter up to the minimum area as set out by the government are entitled to an one-off cash allowance. However, the specific timetable and procedures of implementation of these policies are to be determined by individual provincial or municipal government based on the particular situation of the province or municipality. Certain provincial governments have already set out the implementation procedures while Shanghai Municipal Government is yet to announce such details. With reference to policies already set out by certain provincial governments, the Company's directors estimated a provision of approximately RMB80,179,000 which was included in other payables in the Group's consolidated balance sheet as at 31 December 2002 (2001: RMB80,179,000).

(Prepared in accordance with International Financial Reporting Standards)
Year ended 31 December 2002

35. Notes to the Consolidated Cash Flow Statement

(a) Analysis of the balances of cash and cash equivalents

	2002 RMB'000	2001 RMB'000
Cash and bank balances	**1,889,647**	1,099,630
Short-term deposits with an associate	**94,502**	281,362
Less: short-term deposits with original maturities over three months	**(39,624)**	(50,012)
	1,944,525	1,330,980

(b) Supplementary information

	2002 RMB'000	2001 RMB'000
Interest received, net of amortisation of bond discount	**75,466**	87,064
Interest paid, net of amount capitalised	**847,213**	936,751
Income tax paid	**33,683**	9,893
Investing activities not affecting cash:		
Discounts on aircraft acquisition used for purchases of flight equipment and spare parts	**125,728**	8,872
Financing activities not affecting cash:		
Dividend payable to ultimate holding company set off against loan to ultimate holding company	**–**	60,050

36. Commitments and Contingent Liabilities

(a) Capital commitments

As at 31 December 2002, the Group and the Company had the following capital commitments:

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
– Aircraft and related equipment	**14,543,622**	9,186,803	**14,543,622**	9,186,803
– Additional investment in subsidiaries	**–**	–	**517,183**	–
– Other	**176,810**	437,820	**57,380**	87,820
	14,720,432	9,624,623	**15,118,185**	9,274,623
Authorised but not contracted for:				
– Aircraft and related equipment	**830,000**	–	**–**	–
– Other	**2,984,270**	980,289	**2,984,050**	1,348,071
	3,814,270	980,289	**2,984,050**	1,348,071
	18,534,702	10,604,912	**18,102,235**	10,622,694

The above commitments mainly include amounts for acquisition of twenty A-320 and five A-340 aircraft (2001: ten B737 and five A-340 aircraft) for delivery between 2003 and 2005 (2001: 2002 and 2004).

Contracted expenditures for the above aircraft and related equipment, including deposits prior to delivery, subject to an inflation increase built in the contracts and any discounts available upon delivery of the aircraft, were expected to be paid as follows:–

	Group and Company
	2002
	RMB'000
2003	**6,966,689**
2004	**3,781,882**
2005	**3,795,051**
	14,543,622

36. Commitments and Contingent Liabilities (Cont'd)

(b) Operating lease commitments

As at 31 December 2002, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:-

	2002		2001	
	Aircraft and flight equipment RMB'000	**Land and buildings RMB'000**	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Group				
Within one year	**1,048,361**	**46,366**	1,013,629	40,462
In the second year	**837,456**	**15,272**	1,373,539	16,756
In the third to fifth year inclusive	**2,144,350**	**19,915**	3,430,504	30,638
After the fifth year	**1,938,362**	**10,436**	4,890,768	14,090
	5,968,529	**91,989**	10,708,440	101,946
Company				
Within one year	**854,673**	**42,742**	819,957	38,206
In the second year	**643,767**	**12,959**	1,178,866	16,171
In the third to fifth year inclusive	**1,563,284**	**19,735**	2,849,487	30,339
After the fifth year	**143,515**	**10,436**	4,032,137	14,090
	3,205,239	**85,872**	8,880,447	98,806

(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. In 2002, the Group has fulfilled the required commitment for the current year, no dividend however has been declared by GE Xiamen for 2002.

(d) Contingent liabilities

As at 31 December 2002, the Group had provided a guarantee to a bank in respect of bank facilities granted to Nanjing Lu Kou International Airport Company ("Lu Kou Airport"), a third party, amounting to RMB150,000,000 (2001: RMB150,000,000), with a final maturity to 20 October 2004.

37. Segment Reporting

(a) Primary reporting format by business segment

The Group operates in one business segment which is the common carriage of passengers, cargo and mail over various routes authorised by CAAC.

(b) Secondary reporting format by geographical segment

The Group's turnover and operating profit by geographical segments are analysed as follows:

	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries(*) RMB'000	Total RMB'000
2002					
Traffic revenues					
– Passenger	**4,669,731**	**1,911,016**	**1,279,083**	**2,178,000**	**10,037,830**
– Cargo and mail	**246,146**	**257,270**	**535,915**	**1,405,336**	**2,444,667**
	4,915,877	**2,168,286**	**1,814,998**	**3,583,336**	**12,482,497**
Other operating revenues	**563,904**	**–**	**10,957**	**21,631**	**596,492**
Turnover	**5,479,781**	**2,168,286**	**1,825,955**	**3,604,967**	**13,078,989**
Segment results	**(95,766)**	**448,359**	**503,628**	**152,626**	**1,008,847**
Unallocated income (note 4)					**226,373**
Unallocated costs (note 12(a))					**(171,753)**
Operating profit					**1,063,467**
2001					
Traffic revenues					
– Passenger	4,701,198	1,921,148	1,145,183	1,819,412	9,586,941
– Cargo and mail	286,288	224,584	429,788	1,151,009	2,091,669
	4,987,486	2,145,732	1,574,971	2,970,421	11,678,610
Other operating revenues	447,636	–	9,204	17,358	474,198
Turnover	5,435,122	2,145,732	1,584,175	2,987,779	12,152,808
Segment results	70,175	484,817	367,602	(53,103)	869,491
Unallocated income (note 4)					127,608
Operating profit					997,099

* include U.S., Europe and other Asian countries

The major revenue-earning assets of the Group are its aircraft fleet, all of which are registered in the PRC. Since the Group's aircraft fleet is deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments.

38. Related Party Transactions

(a) Balances with related companies

(i) Amounts due from/to related companies

Amounts due from/to related companies arising from trading activities are unsecured, interest free and with no fixed terms of repayment. As at 31 December 2002, such balances mainly included the following:-

CAAC

Balances with CAAC comprised civil aviation infrastructure levies payable to CAAC.

Eastern Aviation Import and Export Company ("EAIEC")

Balances with EAIEC, a fellow subsidiary, comprised prepayments as well as purchases of flight equipment and flight equipment spare parts payable to EAIEC.

(ii) Short-term deposits with an associate

The Group and the Company have short-term deposits of RMB94,502,000 and RMB72,826,000 (2001: RMB281,362,000 and RMB266,741,000) respectively placed with EAGF, an associate. The short-term deposits yield interest at an average rate of 0.72% per annum (2001: 0.99% per annum).

(b) Guarantee by the holding company

As at 31 December 2002, certain long-term bank loans of the Group are guaranteed by EA Group (note 26).

38. Related Party Transactions (Cont'd)

(c) Related party transactions

In the normal course of business, the Group had the following material transactions with its related parties during the year ended 31 December 2002:-

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration) 2002 RMB'000	2001 RMB'000
(i) With CAAC and its affiliates :–			
Commission income on carriage service provided by other airlines with air tickets sold by the Group at fixed rates ranging from 3% to 9% of value of tickets sold	PRC airlines	**6,532**	9,915
Take-off and landing fees charged at predetermined scale of rates published by CAAC	PRC airports	**(981,860)**	(936,594)
Purchase of aircraft fuel at State controlled prices	Civil Aviation Oil Supply Company	**(1,616,324)**	(1,739,114)
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	– CAAC	**(46,207)**	(50,229)
	– PRC airlines	**(1,885)**	(1,758)
Civil aviation infrastructure levies collected on behalf of CAAC and calculated at the rates of 5% and 2% of the Group's annual gross domestic and international traffic revenues respectively	CAAC	**(431,162)**	(370,284)
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	**(178,625)**	(82,932)
Acquisition of a passenger carriage business	China Civil Aviation Flight College	**–**	(214,755)

38. Related Party Transactions (Cont'd)

(c) Related party transactions (cont'd)

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration) 2002 RMB'000	2001 RMB'000
(ii) With CEA Holding or companies directly or indirectly held by CEA Holding:–			
Interest income on deposits at rates of 0.72% per annum (2001: 0.99% per annum)	EAGF	**2,738**	2,290
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	– Shanghai Tourism Company (Hong Kong) Limited	**(7,944)**	(10,105)
	– Certain other subsidiaries of CEA Holding	**(39,016)**	(49,286)
Interest expenses on loans at rates ranging from 4.185% to 4.65% per annum (2001: 5.30% to 5.58% per annum)	EAGF	**(1,373)**	(1,268)
Purchase of aircraft, flight equipment, flight equipment spare parts and other fixed assets, and repair of aircraft inclusive of handling charges of 0.1% to 2%	EAIEC	**(3,434,976)**	(1,137,471)
Ticket reservation service charges for utilisation of computer reservation system	TravelSky Technology Limited	**(72,925)**	(55,800)
Repairs and maintenance expenses payable for ground service facilities	Shanghai Eastern Air Industrial Corporation ("SEAIC")	**(35,055)**	(24,362)

38. Related Party Transactions (Cont'd)

(c) Related party transactions (cont'd)

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration) 2002 RMB'000	2001 RMB'000
(ii) With CEA Holding or companies directly or indirectly held by CEA Holding (Cont'd):–			
Sourcing of food and beverages	– Eastern Air (Shantou) Economic Development Co. Ltd.	**(46,666)**	(52,821)
	– Shanghai Eastern Air Catering Co. Ltd.	**(117,242)**	(101,160)
	– SEAIC	**(13,893)**	(10,688)
	– Qilu Eastern Air Catering Co. Ltd.	**(8,824)**	(6,426)
	– Qingdao Air Service Co. Ltd.	**(12,751)**	(10,926)
Advertising expenses	EAASC	**(4,857)**	(6,985)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(8,394)**	(6,434)
Inflight hygiene and cleaning service expenses	Shanghai Eastern General Corporation	**(1,683)**	(15,318)
Printing expenses	Shanghai Aviation Printing Co., Ltd.	**(1,594)**	(3,799)
Rental expenses	– Shanghai Eastern Aviation Equipment Manufacturing Corporation	**(4,509)**	(4,461)
	– Shanghai Eastern Real Estate Operation Co. Ltd.	**(3,291)**	(5,794)
Investment in an associate, EAASC, a company previously wholly owned by CEA Holding (note 16)	CEA Holding	**(15,762)**	–
Investment in an associate, EAGF, a company previously jointly owned by CEA Holding (formerly known as EA Group) and its subsidiaries (note 16)	CEA Holding	**–**	(106,364)

The directors of the Company are of the opinion that the above transactions were entered into the normal course of business and in accordance with the agreements governing such transactions. This has been confirmed by the non-executive directors.

39. Financial Assets and Financial Liabilities

Financial assets of the Group mainly include short-term deposits and bank balances, deposits with and amounts due from related companies, trade receivables, long-term receivables and bank deposits, zero coupon bonds, short-term investments and derivative assets. Financial liabilities of the Group include bank and other loans, obligations under finance leases, amounts due to related companies, trade payables, derivative liabilities and other payables.

(a) Business risk

The Group conducts its principal operations in the PRC and accordingly is subject to special consideration and significant risks not typically associated with companies in the United States of America and Western Europe. These include risks associated with, among others, the political, economic and legal environment, influence of CAAC over various aspects of the Group's operations, and competition, in the passenger, cargo and mail airlines services industry.

(b) Price risk

The Group's results of operations may be significantly affected by the fluctuation of the fuel prices which is a major expense category. While the international fuel prices are determined by worldwide market demand and supply, domestic fuel prices are regulated by CAAC. The Group does not undertake financial instruments to hedge fuel price risk.

(c) Interest rate risk

The Group is exposed to risk arising from changes in market interest rates. To hedge against the change in market interest rates, the Group entered into certain interest rate swaps during the year (note 40). The interest rates and terms of repayment of loans made to the Group are disclosed in notes 25, 26 and 27.

(d) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one financial institution.

(i) Deposits with an associate and cash and bank balances

Substantially all the Group's cash and bank balances are placed with a number of international and PRC banks and an associate, EAGF. Details of deposits placed with EAGF have been disclosed in note 38(a)(ii).

39. Financial Assets and Financial Liabilities (Cont'd)

(d) Credit risk (Cont'd)

(ii) Trade receivables

These are mainly tickets sales receivable from sales agents and receivables related to uplifts by the Company on behalf of other carriers which are spread among numerous third parties.

(iii) Other receivables

These are spread among numerous third parties.

(iv) Amounts due from the related companies

These balances are disclosed in note 38 (a).

(v) Short-term investments

Short-term investments are placed with a PRC financial institution which executes the buying or selling securities on behalf of the Group.

The carrying amounts of financial assets best represent their maximum credit risk exposure at the balance sheet date.

(e) Liquidity risk

The Group finances its working capital requirements through a combination of funds generated from operations and short-term bank loans. The Group generally operates with a working capital deficit. As at 31 December 2002, the Group's net current liabilities amounted to RMB7,437 million (2001: RMB3,163 million). For the year ended 31 December 2002, the Group recorded a net cash inflow from operating activities of RMB2,160 million (2001: RMB2,499 million), a net cash outflow from investing activities and financing activities of RMB1,587 million (2001: RMB2,571 million), and an increase in cash and cash equivalents of RMB574 million (2001: decrease of RMB72 million).

The directors of Company believe that cash from operations and short-term bank borrowings will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group treasury aims at maintaining flexibility in funding by keeping committed credit lines available. The directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes.

39. Financial Assets and Financial Liabilities (Cont'd)

(f) Foreign currency risk

The Group's finance lease obligation as well as certain bank and other loans are denominated in US dollars, Japanese yen and Euro, and certain expenses of the Group are denominated in currencies other than Renminbi. The Group generates foreign currency revenues from ticket sales made in overseas offices and would normally generate sufficient foreign currencies after payment of foreign currency expenses, to meet its foreign currency liabilities repayable within one year. However, the Group is unable to hedge its foreign currency liability exposure fully other than by retaining those foreign currency earnings and receipts to the extent permitted by the State Administration of Exchange Control. Renminbi against US dollars had been comparatively stable in the past. However, Renminbi against Japanese Yen and Euro had experienced a significant level of fluctuation over the past two years, particularly the Japanese Yen, which is the major reason for the significant exchange differences recognised by the Group for the years ended 31 December 2002 and 2001.

The Group enters into certain foreign currency forward contracts with PRC banks to hedge against foreign currency risk (note 40).

(g) Fair Value

The carrying amounts and estimated fair values of significant financial assets and liabilities at 31 December 2002 and 2001 are set out below:–

	Group and Company			
	2002		2001	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Long-term bank loans	**6,494,631**	**5,939,491**	5,300,567	5,061,182
Obligations under finance leases	**8,183,966**	**8,202,528**	9,871,351	9,959,798
Long-term bank deposits	**1,463,044**	**1,547,671**	1,255,005	1,337,082

The fair values of the long-term banks loans, obligation under finance leases and long-term bank deposits are estimated by applying a discounted cash flow approach using current market interest rates for similar indebtedness/investment.

The fair value of cash and bank balances, trade receivables, other receivables, amounts due from and to related companies, trade payables, other payables and short-term bank loans are not materially different from their carrying amounts because of the short maturities of these instruments.

39. Financial Assets and Financial Liabilities (Cont'd)

(g) Fair Value (Cont'd)

Investments in subsidiaries and associates represent unquoted equity interests in companies established in the PRC. There is no quoted market price for such interests and accordingly a reasonable estimate of their fair value could not be made without incurring excessive costs.

Fair value estimates are made at specific point in time and are based on relevant market information. This estimate is subjective in nature and involves uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

40. Derivative Financial Instruments

	Group and Company	
	Assets	**Liabilities**
	RMB'000	**RMB'000**
At 31 December 2002		
Interest rate swaps (note (a))	**–**	**37,261**
Forward foreign exchange contracts (note (b))	**9,891**	**5,836**
	9,891	**43,097**
At 31 December 2001		
Forward foreign exchange contracts	5,396	–

(a) Interest rate swaps

The Group uses interest rate swaps to reduce risk of changes in market interest rates. The interest swaps entered into by the Group fulfill the criteria for hedge accounting and are accounted for as cash flow hedge. As at 31 December 2002, the notional amount of the outstanding interest rate swap agreements was approximately US$96 million (2001: nil), the related fixed interest rates varied from 3% to 4.73%, the floating rates were at three month London Inter Bank Offering Rates ("LIBOR") plus 0.028% and six month LIBOR. For the year ended 31 December 2002, a loss of RMB37,261,000 arising from changes in the fair value of the interest rate swaps subsequent to initial recognition is recognised directly in the hedging reserve (note 29).

40. Derivative Financial Instruments (Cont'd)

(b) Forward foreign exchange contract

The Group uses currency forward contracts to reduce risks of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. The Group's currency forward contracts qualify for hedging accounting and are accounted for as cash flow hedges. As at 31 December 2002, a net loss of RMB1,341,000 arising from these foreign currency forwards was recognised in the hedging reserve (see note 29).

41. Ultimate Holding Company

The directors regard CEA Holding, a company established in the PRC, as being the ultimate holding company.

42. Post Balance Sheet Date Events

Disposal of aircraft to a subsidiary

Subsequent to the balance sheet date, the Company entered into an agreement to dispose of three A320-200 to CEA Jiangsu, a non-wholly owned subsidiary, for a total consideration of RMB998,285,000, the carrying amount of the aircraft as at 31 December 2002, as determined under the PRC Accounting Regulations.