

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

Being entrusted, we have audited the balance sheet as well as the consolidated balance sheet as at 31 December 2002 of China Eastern Airlines Corporation Limited ("the Company"), the Company's as well as the consolidated income statement and profit appropriation statement and cash flows statement for the year then ended. The preparation of these financial statements is the responsibility of the Company's management while our responsibility is to form an independent opinion on them. Based on the "Independent Auditing Standards for PRC Independent Auditors" and in consideration of the actual situation of the Company, we conducted our examination according to the procedures, including sampling test of accounting records, as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements are prepared in compliance with the "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises", and present fairly, in all material aspects, the financial position of the Company and the consolidated as at 31 December 2002 and the result of operation and cash flows for the year then ended. In the accounting treatment, the principle of consistency is adopted.

Rong Zhao C.P.A.

Li Chen C.P.A.

Shanghai Zhonghua Certified Public Accountants

Shanghai, China
April 7, 2002

Income Statement & Statement of Profit Appropriation and Distribution

(Prepared in accordance with PRC Accounting Regulations)

For the Period of January – December 2002

Unit: RMB Yuan					
Item	Note	Current year (consolidated)	Current year (parent corp.)	Previous year (consolidated)	Previous year (parent corp.)
I. Revenue from Main Operations:	5.37	13,390,645,825.33	11,128,759,660.56	12,839,339,288.79	10,836,053,949.83
Less: Revenue for Civil Air Infrastructure Construction Fund		430,869,428.70	363,299,781.44	427,784,224.78	364,584,964.00
Revenue from Main Operations, net		12,959,776,396.63	10,765,459,879.12	12,411,555,064.01	10,471,468,985.83
Less: Main Operating Cost	5.37	10,221,015,691.27	8,510,522,752.59	9,895,680,220.39	8,309,081,958.21
Business Taxes and additional	5.38	304,438,089.97	256,258,328.23	296,836,879.42	255,111,509.28
II. Profit from Main Operations		2,434,322,615.39	1,998,678,798.30	2,219,037,964.20	1,907,275,518.34
Add: Other Operating Revenue	5.39	544,307,535.82	375,465,509.14	541,079,876.56	526,189,646.92
Less: Operating Expenses		1,120,541,201.97	1,018,818,184.38	1,297,765,706.82	1,205,229,653.27
General & Administrative Expenses		829,930,976.83	693,293,529.12	657,077,144.35	545,020,509.97
Financial Expenses	5.4	844,521,595.97	766,787,452.58	699,722,003.92	641,818,197.11
III. Profit from Operations		183,636,376.44	(104,754,858.64)	105,552,985.67	41,396,804.91
Add: Investment Income	5.41	21,258,570.74	186,478,246.27	57,296,511.88	94,413,055.11
Subsidy Income	5.42	54,810,000.00	54,810,000.00	750,000.00	750,000.00
Non-operating Income	5.43	30,926,872.20	28,956,000.10	33,312,379.60	25,092,544.34
Less: Non-operating Expenses	5.44	28,325,854.11	23,452,675.68	48,259,815.66	41,597,244.21
IV. Total Profit		262,305,965.27	142,036,712.05	148,652,061.49	120,055,160.15
Less: Income Tax	5.45	69,812,153.90	832,307.06	26,331,575.64	21,794,661.74
Gains or losses of Minority Shareholders		68,234,321.25	–	25,319,002.20	–
V. Net Profit		124,259,490.12	141,204,404.99	97,001,483.65	98,260,498.41
Add: Undistributed Profit at the Beginning of the Year		95,630,191.79	137,683,974.82	99,328,902.88	136,762,476.41
Less: Decrease of Undistributed Profit to Reduce Registered Capital		–	–	–	–
Add: Transfer from Surplus Reserve		–	–	–	–
VI. Distributable Profit		219,889,681.91	278,888,379.81	196,330,386.53	235,022,974.82
Less: Provision for Statutory Surplus Reserve		10,695,313.20	–	1,680,597.37	–
Provision for Statutory Public Welfare Fund		10,614,147.54	–	1,680,597.37	–
Provision for Staff & Workers' Welfare Fund		341,032.19	–	–	–

Income Statement & Statement of Profit Appropriation and Distribution

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2002

Unit: RMB Yuan					
Item	Note	Current year (consolidated)	Current year (parent corp.)	Previous year (consolidated)	Previous year (parent corp.)
VII. Profit Attributable to Shareholders		198,239,188.98	278,888,379.81	192,969,191.79	235,022,974.82
Less: Dividends for Preferred Shares		-	-	-	-
Provision for Discretionary Surplus Reserve		81,165.66	-	-	-
Dividends for Common Shares		97,339,000.00	97,339,000.00	97,339,000.00	97,339,000.00
Transfer of Common Dividends into Share Capital		-	-	-	-
VIII. Undistributed Profit		100,819,023.32	181,549,379.81	95,630,191.79	137,683,974.82
Supplementary Data					
1. Proceeds from Sale or Disposal of Departments or Invested Companies		-	-	-	-
2. Loss from Natural Disasters		-	-	-	-
3. Increase (or Decrease) of Total Profit Arising From Change in Accounting Policies		(147,439.22)	(761,794.31)	(21,414,392.72)	(21,723,999.24)
4. Increase (or Decrease) of Total Profit Arising from Change in Accounting Estimations		-	-	-	-
5. Loss from Debt Reorganization		-	-	-	-
6. Other Items		-	-	-	-

Balance Sheet

(Prepared in accordance with PRC Accounting Regulations)

As at 31 December 2002

Unit: RMB Yuan					
Assets	Note	Ending Balance (Consolidated)	Ending Balance (Parent Corp.)	Beginning Balance (Consolidated)	Beginning Balance (Parent Corp.)
Current Assets:					
Cash & bank	5.1	3,119,051,256.69	2,028,252,146.46	2,756,765,666.67	2,350,245,497.26
Short-term Investment	5.2	664,108,272.14	374,108,272.14	–	–
Dividends Receivable		1,572,272.86	–	–	–
Accounts Receivable	5.3	1,231,053,968.74	902,366,233.17	908,566,274.58	761,110,116.04
Other Receivables	5.4	368,736,056.28	1,008,422,907.20	486,582,621.58	623,609,554.00
Prepayments	5.5	95,095,779.46	73,290,000.51	102,453,391.89	96,282,270.92
Inventory	5.6	1,959,345,184.66	1,878,468,586.08	2,074,690,294.37	1,980,881,119.64
Amounts to be Amortized	5.7	100,504,766.91	79,389,571.82	97,348,982.54	75,274,525.75
Total Current Assets		7,539,467,557.74	6,344,297,717.38	6,426,407,231.63	5,887,403,083.61
Long-term Investment:					
Long-term Equity Investment	5.8	461,587,911.68	1,871,383,013.69	210,363,823.42	1,157,575,317.61
Long-term Debt Investment	5.9	542,124,759.14	542,124,759.14	501,722,616.34	501,722,616.34
Total Long-term Investment		1,003,712,670.82	2,413,507,772.83	712,086,439.76	1,659,297,933.95
Less: Provision for Impairment of Long-term Investment		1,758,050.62	–	1,758,050.62	–
Long-term Investment, net		1,001,954,620.20	2,413,507,772.83	710,328,389.14	1,659,297,933.95
Including: Consolidation Difference (in Consolidated Statements)		(1,691,077.81)	–	–	–
Including: Equity Investment Difference		63,709,970.49	63,709,970.49	(4,984,369.89)	(4,984,369.89)
Fixed Assets:					
Fixed Assets, at Cost	5.10	30,383,736,242.33	27,093,885,520.52	29,603,516,189.77	28,424,471,634.73
Less: Accumulated Depreciation		12,495,867,572.21	11,088,174,076.11	12,271,615,002.69	11,964,394,461.47
Net Fixed Assets		17,887,868,670.12	16,005,711,444.41	17,331,901,187.08	16,460,077,173.26
Less: Provision for Impairment of Fixed Assets		3,570,000.00	3,570,000.00	3,570,000.00	3,570,000.00
Fixed Assets, net		17,884,298,670.12	16,002,141,444.41	17,328,331,187.08	16,456,507,173.26
Engineering Supplies		329,000.00	329,000.00	–	–
Construction-in-progress	5.11	3,433,744,466.12	3,337,108,285.79	1,384,276,612.14	1,311,906,436.74
Disposal of Fixed Assets		184,312.63	–	–	–
Total Fixed Assets		21,318,556,448.87	19,339,578,730.20	18,712,607,799.22	17,768,413,610.00
Intangible Assets & Other Assets					
Intangible Assets, net	5.12	1,273,502,961.05	789,257,557.73	1,268,854,806.89	773,999,790.69
Long-term Amounts to be Amortized	5.13	248,102,246.98	226,968,206.83	230,497,341.12	207,562,292.25
Total Intangible Assets & Other Assets		1,521,605,208.03	1,016,225,764.56	1,499,352,148.01	981,562,082.94
Deferred Taxes:					
Deferred Tax Debits	5.14	44,612,855.47	24,930,633.83	44,760,294.69	25,692,428.14
Total Assets		31,426,196,690.31	29,138,540,618.80	27,393,455,862.69	26,322,369,138.64

Balance Sheet

(Prepared in accordance with PRC Accounting Regulations)
As at 31 December 2002

					Unit: RMB Yuan
Liabilities & Shareholders' Equity	Note	Ending Balance (Consolidated)	Ending Balance (Parent Corp.)	Beginning Balance (Consolidated)	Beginning Balance (Parent Corp.)
Current Liabilities:					
Short-term Loans	5.15	4,501,508,747.03	3,501,508,747.03	1,282,641,751.70	982,641,751.70
Notes Payable	5.16	411,246,877.94	319,740,317.63	–	–
Accounts Payable	5.17	371,620,243.08	420,027,909.03	251,391,559.30	270,141,404.95
Advances from Customers	5.18	61,085,495.49	98,372,663.93	57,525,967.88	51,400,847.57
International Sales in Advance of Carriage	5.19	733,115,841.87	600,211,133.31	538,731,989.20	507,063,032.62
Domestic Sales in Advance of Carriage	5.20	141,852,544.34	132,642,833.19	119,631,651.17	112,350,411.42
Payroll Payable	5.21	60,770,968.76	60,770,968.76	28,208,284.28	28,208,284.28
Welfare Payable	5.22	46,852,557.69	37,434,420.98	32,287,637.67	25,656,263.31
Dividends Payable	5.23	100,287,841.00	97,339,000.00	97,339,000.00	97,339,000.00
Taxes Payable	5.24	187,529,539.86	137,248,310.58	157,587,611.44	144,921,464.25
Civil Air Infrastructure Construction Fund Unpaid	5.25	151,492,858.97	129,677,796.03	242,681,222.73	188,365,407.94
Other outstanding payment (Statutory)		3,575,795.45	3,362,140.62	2,201,439.05	1,931,051.74
Other Payables	5.26	759,155,254.83	588,095,331.17	698,184,701.33	619,181,748.11
Accrued Expenses	5.27	2,297,434,693.60	1,817,050,063.80	1,866,512,662.11	1,615,237,891.63
Accrued Liabilities	5.28	365,973.00	365,973.00	4,546,797.00	4,546,797.00
Portion of Long-term Liabilities due within One Year	5.29	3,539,368,044.78	3,539,368,044.78	2,974,416,833.25	2,974,416,833.25
Total Current Liabilities		13,367,263,277.69	11,483,215,653.84	8,353,889,108.11	7,623,402,189.77
Long-term Liabilities:					
Long-term Loans	5.30	3,775,888,712.75	3,775,888,712.75	3,205,690,568.88	3,205,690,568.88
Long-term Accounts Payable	5.31	7,573,355,532.98	7,573,355,532.98	9,231,810,379.06	9,231,810,379.06
Total Long-term Liabilities		11,349,244,245.73	11,349,244,245.73	12,437,500,947.94	12,437,500,947.94
Deferred Taxes:					
Deferred Tax Credits	5.32	653,269.53	471,555.00	731,862.03	550,147.50
Total Liabilities		24,717,160,792.95	22,832,931,454.57	20,792,121,918.08	20,061,453,285.21
Minority Interests		424,970,021.14	–	344,675,432.13	–
Shareholders' Equity:					
Capital Stock	5.33	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00	4,866,950,000.00
Capital Reserve	5.34	1,257,109,784.42	1,257,109,784.42	1,256,281,878.61	1,256,281,878.61
Surplus Reserve	5.35	59,187,068.48	–	37,796,442.08	–
Including: Public Welfare Fund		29,512,368.58	–	18,898,221.04	–
Undistributed Profit	5.36	100,819,023.32	181,549,379.81	95,630,191.79	137,683,974.82
Total Shareholders' Equity		6,284,065,876.22	6,305,609,164.23	6,256,658,512.48	6,260,915,853.43
Total Liabilities & Shareholders' Equity		31,426,196,690.31	29,138,540,618.80	27,393,455,862.69	26,322,369,138.64

Cash Flow Statement

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2002

		Unit: RMB Yuan	
Item	Consolidated	Parent Company	
I. Cash Flows from Operating Activities:			
Cash received from sales of goods or rendering of services	14,143,247,702.25	11,915,946,822.48	
Refunds of taxes	–	–	
Other cash received relating to operating activities	131,772,177.73	123,433,676.94	
Sub-total of cash inflows	14,275,019,879.98	12,039,380,499.42	
Cash paid for goods and services	8,342,721,361.80	7,348,931,447.21	
Cash paid to and on behalf of employees	1,072,989,519.04	905,799,698.89	
Payments of all types of taxes	907,478,043.57	699,553,549.08	
Cash paid relating to other operating activities	388,448,853.30	316,339,954.40	
Sub-total of cash outflows	10,711,637,777.71	9,270,624,649.58	
Net cash flows from operating activities	3,563,382,102.27	2,768,755,849.84	
II. Cash Flows from Investing Activities:			
Cash received from return of investments	60,000,000.00	–	
Cash received from distribution of dividends or profits	6,835,037.61	6,344,392.45	
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets	1,058,273,155.13	1,122,517,753.09	
Cash received relating to other investing activities	–	–	
Sub-total of cash inflows	1,125,108,192.74	1,128,862,145.54	
Cash paid to acquire fixed assets, intangible assets, and other long-term assets	5,003,349,103.60	3,733,641,719.01	
Cash paid to acquire investments	730,123,787.87	1,084,764,341.74	
Cash paid relating to other investing activities	30,000,000.00	30,000,000.00	
Sub-total of cash outflows	5,763,472,891.47	4,848,406,060.75	
Net cash flows from investing activities	(4,638,364,698.73)	(3,719,543,915.21)	
III. Cash Flows from Financing Activities:			
Cash received from investments by others including: Cash received by subsidiaries from investments by minority shareholders	161,287,760.00 161,287,760.00	– –	
Cash received from borrowings	9,204,313,041.84	8,054,313,041.84	
Cash received relating to other financing activities	62,011,586.68	62,011,586.68	
Sub-total of cash inflows	9,427,612,388.52	8,116,324,628.52	
Cash repayments of amounts borrowed	4,530,294,942.64	4,080,294,942.64	
Cash paid for distribution of dividends or profits and for interest expenses including: Cash paid for distribution of dividends or profits to minority shareholders by subsidiaries	1,105,161,395.01 2,625,261.61	1,041,399,577.64 –	
Cash paid relating to other financing activities	2,120,509,604.36	2,120,509,604.36	
Sub-total of cash outflows	7,755,965,942.01	7,242,204,124.64	
Net cash flows from financing activities	1,671,646,446.51	874,120,503.88	
IV. Effect of Foreign Exchange Rate Changes on Cash	(33,086,558.50)	(43,270,526.98)	
V. Net Increase in Cash and Cash Equivalents	563,577,291.55	(119,938,088.47)	

Cash Flow Statement

(Prepared in accordance with PRC Accounting Regulations)
For the Period of January – December 2002

		Unit: RMB Yuan	
Supplementary Information	Consolidated	Parent Company	
1 Reconciliation of Net Profit to Cash Flows from Operating Activities			
Net Profit	124,259,490.12	141,204,404.99	
Add: Gains or losses of minority shareholders	68,234,321.25	–	
Provision for impairment losses of assets	79,282,270.16	77,725,475.07	
Depreciation of fixed assets	1,270,452,593.78	1,121,116,364.05	
Amortisation of intangible assets	30,846,919.11	20,287,499.75	
Amortisation of long-term prepaid expenses	66,831,334.19	62,787,037.65	
Decrease in prepaid expenses (or deduct: increase)	(3,155,784.37)	(4,115,046.07)	
Increase in accrued expenses (or deduct: decrease)	445,888,842.21	217,930,712.93	
Losses on disposal of fixed assets, intangible assets and other long-term assets(or deduct: gains)	(8,115,318.32)	(13,108,732.64)	
Losses on scrapping of fixed assets	7,066.33	–	
Financial expenses	855,651,534.50	804,310,777.98	
Losses arising from investments (or deduct: gains)	(21,258,570.74)	(186,478,246.27)	
Deferred tax credit (or deduct: debit)	683,201.81	683,201.81	
Decrease in inventories (or deduct: increase)	48,292,995.51	36,134,921.87	
Decrease in operating receivables (or deduct: increase)	(160,665,469.19)	(167,140,579.59)	
Increase in operating payables (or deduct: decrease)	766,146,675.92	657,418,058.31	
Others	–	–	
Net cash flows from operating activities	3,563,382,102.27	2,768,755,849.84	
2 Investing and Financing Activities that do not Involve Cash Receipts and Payments			
Conversion of debt into capital	–	–	
Reclassify convertible bonds to be expired within one year as current liability	–	–	
Fixed assets financed by finance leases	–	–	
3 Net Increase in Cash and Cash Equivalents			
Cash at the end of the period	1,565,418,075.94	494,722,019.19	
Less: cash at the beginning of the period	1,375,949,056.53	988,768,379.80	
Plus: Cash equivalents at the end of the period	374,108,272.14	374,108,272.14	
Less: Cash equivalents at the beginning of the period	–	–	
Net increase in cash and cash equivalents	563,577,291.55	(119,938,088.47)	

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

1. Brief Profile of the Company

China Eastern Airlines Corporation Limited (“the Company”) was established in April 1995 under the sole sponsorship of Eastern Air Group Company. In February 1997, with the approval of State Reformation Commission by its Circular No. (1996) 180 and State Council Securities Commission by its Circular No. (1997) 4, the Company issued 1,566,950,000 H shares, which are listed on the Stock Exchange of Hong Kong and New York Stock Exchange. In May 1997, with the approval of Civil Aviation Administration of China and China Securities Supervisory Commission, the Company issued an additional of 300,000,000 A shares to the public. The registered capital of the Company is RMB4,866,950 thousand. The registered address is No. 66 Jichang Avenue, Pudong International Airport, Shanghai.

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

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

2.1 Accounting Policies Applied

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

2.2 Accounting Period

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

2.3 Base Currency

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

2.4 Principle and Basis of Accounting

The Company adopts accrual basis. All items are recorded at actual cost upon acquisition. If impairment occurs, the provision for impairment will be made according to regulations of “Accounting Regulations for Business Enterprises”.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

2.5 Translation of Foreign Currencies

Foreign currency transactions are translated into RMB at the middle exchange rate issued by PBOC at the beginning of the month. Monetary assets and liabilities in foreign currencies are translated into RMB at the middle exchange rate prevailing at the end of each period. The differences between RMB equivalents and carrying amounts are treated as exchange differences. Exchange differences of specific borrowings related to the acquisition or construction of a fixed asset should be capitalized in the period in which they are incurred when the relevant fixed asset being acquired or constructed is not ready for its intended use. Exchange differences during preparation period are included in long-term amortization charges, which will be accounted as current profit and loss of the month during which formal operation starts. Exchange differences in normal operations are included in the exchange gains and losses of the current period.

2.6 Definition of Cash Equivalents

Cash equivalents are short term (with a holding period of less than three months), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.7 Current Investment

- 2.7.1 The initial cost of a current investment is the total price paid on acquisition, deducting cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds that have been accrued. Cash dividends or interests during holding period are offset against the carrying amount of investments upon receipt. On disposal of a current investment, the difference between the carrying amount and the sale proceeds is recognized as an investment gain or loss of the current period.
- 2.7.2 The current investment is recorded at the lower of cost and market value. The provision for impairment of current investment is made at the excess of carrying amount over the market value on an individual item basis and will be accounted as current profit and loss.

2.8 Accounting Method for Bad Debts

- 2.8.1 The Company adopts allowance method for bad debts. At the end of each accounting period the company analyses the recoverability of receivable items (including accounts receivable and other receivables) and makes allowance for bad debts according to the aging method and analysis result. Allowance for bad debts is not made for the items that are surely to be recovered. If there is enough evidence proving the uncollectibility of an account receivable than allowance is made at a higher ratio or at the full carrying amount of the account. The allowance for remaining accounts receivable shall refer to the following ratios.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

2.8 Accounting Method for Bad Debts (Cont'd)

Aging	Ratio
Within 1 year	3‰
In the second year	5%
In the third year	10%
In the forth year	15%
In the fifth year	20%
Over 5 years	40%

2.8.2 The company adopts following standards in determination of bad debts:

- a. When the debtor is bankrupt or dead, the accounts receivable that are unable to be recovered even after liquidation of the debtor's bankrupt estate or legacy.
- b. When the debt is overdue due to the default of the debtor and there is obvious evidence proving the uncollectibility of the accounts.

The bad debt loss should be approved by Board of Directors. The bad debts will first offset against the allowance that has already been made. If the allowance for bad debts is not enough to compensate the losses the difference will be charged into income statement of the current period.

2.9 Inventory

2.9.1 The inventory of the Company mainly comprises high-price rotables, aircraft consumables, common appliances, aircraft supplies and low-price consumables. The inventory is recorded at planned price and the difference between planned price and actual cost is recorded in "Materials Cost Variance". The amortization of high-price rotables is made evenly over 5 years starting from the next month of acquisition according to the adjusted actual cost. Other inventory such as aircraft consumables is charged to cost according to the adjusted actual cost when put into use.

2.9.2 Provision for impairment of aircraft consumables is made at the end of each period according to the average useful life of corresponding aircraft and average discount rate in previous disposals. No provision for impairment of high-price rotables is made except the corresponding aircraft have all been sold out, under which circumstances the impairment is provided at the excess of carrying amount over net realizable value.

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

2.10 Long-term Investment

- 2.10.1 Long-term equity investment (including stock investment and other equity investment) is recorded at the actual cost after deducting cash dividends which have been declared but unpaid at the time of acquisition or at the price agreed upon by relevant parties. The equity method is applied wherever the Company can control, jointly control or has significant influence over the investee enterprise (usually when the Company holds 20% or more voting capital of the investee enterprises or holds less than 20% of the voting capital but has significant influence over the investee enterprise). Otherwise, the cost method is applied. When equity method is adopted, the difference (referred to as "equity investment difference") between the initial investment cost and the investor's share of owners' equity of the investee enterprise should be amortized evenly over a period of 10 years and charged into corresponding year's profit and loss account.
- 2.10.2 Long-term debt investment (including bond investment and other debt investment) is recorded at the actual cost. The difference between actual cost and the nominal value of a bond investment is recognized as premium or discount. Interest receivable from investment on bonds should be accrued periodically. The accrued interest revenue from investment on bonds, after adjustments for the amortization of premium or discount, should be recognized as investment income of the period.
- 2.10.3 The long-term investment is recorded at the lower of carrying amount and recoverable amount at the end of each period. If the recoverable amount of a long-term investment is lower than its carrying amount as a result of a continuing decline in market value or deterioration in operating conditions of the investee enterprise, the Company shall make provision for impairment on long-term investment on an individual item basis and charge into the current period.

2.11 Fixed Assets and Depreciation

- 2.11.1 Fixed assets refer to those tangible assets whose useful life is over 1 year, with a high unit price and can be held physically to realize its benefits during the course of use. Fixed assets are recorded at actual acquisition cost. The assets held under financial lease are recorded at net contract price and other actual incidental cost incurred. The corresponding long-term liabilities are determined by the total financing amount stipulated in such financing contracts as lease agreement and loan agreement signed by the Company and lessor. The financing expenses are apportioned during the course of leasehold with actual interest rate.

If no impairment has occurred, the depreciation is provided on a straight-line basis according to the following useful lives and estimated residual value.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

2.11 Fixed Assets and Depreciation (Cont'd)

	Useful lives	Residual value rate
Aircraft and engines attached	20 years	5%
Standby engines	20 years	0%
Buildings	15-35 years	3%
Vehicles and electronic devices	5-6 years	3%
Other Equipment	5-20 years	3%

When there is an impairment, the depreciation is provided on an individual item basis based on the net book value after deducting impairment and residual useful lives.

- 2.11.2 Fixed asset is recorded at the lower of carrying amount and recoverable amount at the end of each period. If the recoverable amount of a fixed asset is lower than its carrying amount as a result of continuing decline in market value, technology obsolescence, damage or idleness, the Company shall make provision for impairment of fix assets at the end of the period on an individual item basis and charge to the current period.

2.12 Construction-in-Progress

- 2.12.1 Construction-in-progress is accounted for on an individual item basis at the actual cost. Upon completion and readiness for use, the cost of construction-in-progress is to be transferred to the account of <Fixed Assets>. Interests incurred in connection with specific borrowings and relevant exchange differences for the purpose of construction-in-progress, should be capitalized as part of the cost when the project is not ready for intended use. Interests incurred and exchange differences after the project is ready for use should be recognized as current period expenses.
- 2.12.2 Fixed asset is recorded at the lower of carrying amount and recoverable amount at the end of each period. The Company shall make provision for impairment of construction-in-progress at the excess of the carrying amount over its recoverable amount on an individual item basis and charge to the current period.

2.13 Valuation and Amortization of Intangible Assets

- 2.13.1 The intangible assets of the Company refer to non-monetary long-term assets without physical substance held for the purpose of rendering service, rental to others or for administrative purposes. The intangible assets of the Company mainly include land use right and premise use right. The intangible assets are recorded at actual acquisition cost and amortized over its expected useful life under straight-line method.

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

2.13 Valuation and Amortization of Intangible Assets (Cont'd)

2.13.2 The intangible asset of the Company is recorded at the lower of carrying amount and recoverable amount at the end of each period. The Company shall make provision for impairment of intangible asset at the excess of the carrying amount over its recoverable amount on an individual item basis and charge to the current period.

2.14 Long-term Amortization Charges

Long-term amortization charges refer to the expenses that will be amortized after formal operation or the amortization period is over one year. Long-term amortization charges of the Company are mainly uniform cost. All long-term amortization charges are amortized evenly over its estimated beneficial period except organization cost, which will be charged to the profit and loss account of the month during which formal operation starts.

2.15 Overhaul Expenses of Aircraft and Engines

The aircraft and engines of the Company shall undergo overhauls of different criteria periodically to guarantee safe flight. To establish an appropriate match between the overhaul expenses and benefits generated by the aircraft and engines, the Company estimates that the overhaul expenses of various types of aircraft and engines are 2%-4% of the carrying amount based on past experiences of overhaul cycles of C and D criteria, quotation of maintenance companies and actual payment. The overhaul expenses are accrued by different types of aircraft and engines. The actual overhaul expenses will offset the expenses accrued. On complete disposal of the aircraft and engines of a specific type, the shortfall of the provision will be charged directly to the profit and loss account of the period during which the aircraft and engines are disposed of. The remaining overhaul expenses accrued will deduct the cost of the disposal period. Other repair expenses of aircraft and engines will be charged into the profit and loss account of the repair period.

Although the accounting treatment of overhaul expenses for aircraft and engines is not in compliance with the regulations of Ministry of Finance, the Board of Directors regards that the evidence to estimate the overhaul expenses is in compliance with actual circumstances, can better reflect the financial position and operating result of the Company and conform to the principle of consistency.

2.16 Revenue

2.16.1 The Company's revenue from rendering transportation service of passengers, cargo and mails is recognized upon delivery of the service with the uplifted coupons as evidence.

The commission income earned from other carriers in respect of sales made by the Company is recognized upon billing by other carriers.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

2.16 Revenue (Cont'd)

Ground service income is recognized as other operating revenue upon rendering of services.

- 2.16.2 The interest income and royalty arising from the use by others of the assets held by the Company is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

2.17 Income Tax

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

2.18 Basis of Consolidated Statements

- 2.18.1 Consolidation Scope: According to "Notice on the Distribution of 'Provisional Regulation on Consolidation of Financial Statements'" (1995) issued by Ministry of Finance and regulations of CKZ(96) No. 2 "Answer to the Question about Consolidation Scope", the consolidation scope of the Company includes all subsidiaries under control and associated companies under joint control, except the companies that have already been closed down, merged, declared in the process of liquidation or bankruptcy, intended to be sold in the new future or have an insignificant influence on the consolidation.
- 2.18.2 Consolidation Method: The consolidated financial statements are prepared on the basis of the financial statements of the Company and its subsidiaries within consolidation scope and other relevant information. The equity investment and the corresponding portion of the owner's equity of the invested entities, the claims and liabilities, as well as all material transactions between or among them have been eliminated. The financial statements of the associate companies are consolidated in proportion.

2.19 Changes in Major Accounting Policies and Accounting Estimates, and Corrections of Significant Accounting Errors

- 2.19.1 Contents and basis of changes in accounting policies: In order to better reflect the timing difference between profit and taxable income, the tax effects of temporary taxable timing differences are recognized as deferred income tax liabilities while tax effects of deductible temporary timing differences are recognized as deferred income tax assets. The tax payable method is abandoned.

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

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

2.19.2 The Company adopts retrospective method for above change in accounting policy. The opening balances of retained earnings and other relevant accounts have been adjusted. The figures of last year of income statement and profit appropriation statement have also been adjusted.

The influence on net profit of current period and previous period after retrospective adjustment is shown in the following table:

Item	Accumulated influence up to beginning of 2001 Amount	Influence on 2001 Amount	Accumulated influence up to beginning of 2002 Amount	Influence on 2001 Amount
Deferred tax debits	66,174,687.41	(21,414,392.72)	44,760,294.69	(147,439.22)
Minority interests	8,441,217.02	139,322.94	8,580,539.96	276,459.79
Undistributed profit	57,733,470.39	(21,553,715.66)	36,179,754.73	(423,899.01)
Income tax		21,414,392.72		147,439.22
Gains or losses of Minority shareholders		139,322.94		276,459.79

2.19.2 The undistributed profit at the beginning of 2002 is reduced by RMB14,364.20 thousand due to the correction of significant errors. This amount is supplementary public housing fund turned in by the Company this year for 2001, reducing the net profit of 2001 by RMB14,364.20 thousand. The capital reserve at the beginning of 2002 is reduced by RMB6,530.50 thousand, which is because the proceeds of apartments sold to staff collected this year is lower than the estimated amount.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

3. Taxation Items

3.1 Business Tax

The business tax of transportation service, ground service and commissions is levied at 3% of the income.

The business tax of repairs and other services is levied at 5% of the income.

3.2 Value-added Tax

The value-added tax is levied at 4% of the material transfer income.

3.3 City Construction Tax

The city construction tax is levied at 7% of the business tax.

3.4 Income Tax

The income tax is calculated at applicable income tax rate and taxable income of the period. According to circular HSEC(2001)104 of Shanghai State Taxation Bureau, the Company enjoys the preferential policy of Pudong New Area ever since July 1, 2001 and the applicable income tax rate is reduced to 15%.

3.5 Education Tax

The education tax is calculated at 3% of the business tax.

3.6 Civil Aviation Infrastructure Levies

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

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

4. Stock-held Subsidiaries and Associated Companies

No.	Name of Investee Company	Registered Capital (10,000)	Scope of Business	Total Investment (10,000)	Share-holding Percent
1	China Eastern Airlines Jiangsu Co., Ltd.	25,750.36	Air transportation of passengers, cargo, mails and luggage over domestic air routes and approved overseas routes	14,162.70	55%
2	Shanghai Eastern Flight Training Co., Ltd.	35,800.00	Training for flying crew and other related personnel	34,010.00	95%
3	Eastern Airlines Industrial Co., Ltd.	7,000.00	Sales of food, knitwear & hardware	6,010.20	86%
4	China Cargo Airlines Co., Ltd.	50,000.00	Air transportation of cargo & mails, air catering, sales of tourist goods, hotel, catering and entertainment	35,000.00	70%
5	Qi Lu Eastern Airlines Catering Co., Ltd.	1,336.67	Production and sales of food, catering on the planes	868.83	65%
6	Eastern (Shantou) Economic Development Co., Ltd.	500.00	Production & sales of aviation products, hardware, chemical materials	275.00	55%
7	Shanghai Eastern Airlines Investment Co., Ltd.	30,000.00	Investment and relevant consultation	29,502.00	98.34%
8	Jiangsu Eastern Airlines Traveling Agency Co., Ltd.	150.00	Tour service, civil aviation transportation, sales agent	105.00	70%
9	Jiangnan Tourism (HK) Co.	64.11	Tour services	64.11	100%
10	Eastern Airlines Jiangsu Advertisement Co., Ltd.	30.00	Design and making of advertisement in domestic broadcast and newspapers	89.34	100%
11	Jiangsu Suying Labor Service Co., Ltd.	17.00	Labor service, labor agent, labor information consultation and training	15.00	90%
12	Eastern Airlines Jiangsu Co., Ltd. Food Trade Co.	49.80	Shut up	49.80	100%
13	Jiangsu Eastern Airlines Trade Co., Ltd.	200.00	Shut up	110.00	55%
14	Jiangsu Eastern Airlines Industrial Co., Ltd.	22.86	Shut up	16.01	70%
15	Shanghai Eastern Fudart Transportation Services Co., Ltd.	USD100.00	Agent services for transportation of imp. & exp. cargo by air or sea	708.82	51%

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

4. Stock-held Subsidiaries and Associated Companies (Cont'd)

Among the above subsidiaries, No.1, No.2, No. 4 and No.7 have been included in the consolidation scope; No.3 has not started formal operation and is included in the consolidation scope; No. 12, No. 13, and No. 14 have been shut up and are not included in the consolidation scope; No. 5, No. 6, No. 8, No.9, No. 10 and No. 11 have no significant influence on the financial position and not included in the consolidation scope for the total assets, operating revenue, and net profit of these companies represent less than 10% of those of the parent company.

Shanghai Eastern Fudart Transportation Services Co., Ltd. is included in the consolidation scope this year for 51% of its equity has been purchased by China Cargo Airlines Co., Ltd., a subsidiary controlled by the Company.

5. Notes to Main Items of Financial Statements

(All amounts are in RMB Yuan; The notes are explanations to major items of consolidated financial statements except otherwise specified)

5.1 Monetary Fund

Item	Original Currency	Ending Balance		Original Currency	Beginning Balance	
		Exchange Rate	RMB Equivalent		Exchange Rate	RMB Equivalent
Cash			1,629,360.60			1,494,628.00
Bank Deposit			1,477,884,383.59			1,289,124,906.90
RMB	1,174,724,703.52	1	1,174,724,703.52	857,705,026.35	1.0000	857,705,026.35
USD	19,977,663.01	8.2773	165,361,110.03	29,430,384.11	8.2766	243,583,517.12
JPY	653,274,393.00	0.069035	45,098,797.72	1,070,637,938.00	0.063005	67,455,543.28
EUR	4,292,989.31	8.6360	37,074,255.68	1,478,947.84	7.3178	10,822,644.50
SGD	1,899,834.17	4.7705	9,063,158.91	10,419,523.29	4.4755	46,632,576.48
KRW	3,876,079,230.00	0.006898	26,737,194.53	4,906,922,311.00	0.006280	30,815,472.11
THB	50,453,884.55	0.1912	9,647,014.25	30,710,359.43	0.1874	5,755,121.36
NZD	400,619.13	4.35386	1,744,239.61	-	-	-
AUD	1,117,477.40	4.6787	5,228,341.51	419,519.51	4.2331	1,775,868.04
INR	18,534,650.64	0.17295	3,205,567.83	-	-	-
DEM	-	-	-	680,192.39	3.7415	2,544,939.83
FRF	-	-	-	13,878,176.02	1.1156	15,482,493.17
ESP	-	-	-	100,109,188.00	0.0440	4,404,804.28
BEF	-	-	-	11,835,173.00	0.1814	2,146,900.38
Other Monetary Fund			1,639,537,512.50			1,466,146,131.77
Total			3,119,051,256.69			2,756,765,666.67

Among the year-end balance, the restricted overseas deposit is equivalent to RMB1,553,633,180.75.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.2 Current Investment

	Balance	Ending Balance Provision for Impairment	Net Value	Balance	Beginning Balance Provision for Impairment	Net Value
Stock Investment	290,000,000.00	–	290,000,000.00	–	–	–
Other Investment	374,108,272.14	–	374,108,272.14	–	–	–
	664,108,272.14	–	664,108,272.14	–	–	–

The Company entrusts ICBC Shanghai Branch to manage its other investment with its self-owned foreign exchange. The original currency is USD45,196,895.59. The interest rate is 1.3% and the maturity is from Jan. 2, 2003 to Jan. 23, 2003.

The Company entrusts Shenyin & Wanguo Securities Co., Ltd. to manage the stock investment for a period of one year. The supervisor is Bank of China Shanghai Branch. The maturity is from Sept. 19, 2003 to Dec. 28, 2003. According to the investment entrustment agreement, the investment gain is not higher than 7%-7.9% and the actual investment gains lower than the ratio shall be born by the Company. From the confirmation of assignee and supervisor, there is no significant loss to this asset as of Dec. 31, 2002.

5.3 Accounts Receivable

5.3.1 Consolidated

Aging	Amount	Ending Balance			Amount	Beginning Balance		
		Percentage (%)	Provision for Bad Debts	Net Amount		Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	1,193,323,084.87	91.71	3,579,969.26	1,189,743,115.61	853,963,033.23	87.81	2,798,747.52	851,164,285.71
In the Second Year	19,424,192.10	1.49	1,976,300.13	17,447,891.97	63,946,405.26	6.58	27,163,893.04	36,782,512.22
In the Third Year	42,852,769.67	3.29	27,639,501.87	15,213,267.80	17,673,072.74	1.82	8,169,768.23	9,503,304.51
In the Fourth Year	15,301,304.63	1.18	12,987,044.91	2,314,259.72	6,603,597.85	0.68	4,453,590.50	2,150,007.35
In the Fifth Year	13,411,099.00	1.03	7,075,665.36	6,335,433.64	16,613,980.45	1.71	7,917,461.75	8,696,518.70
Above 5 Years	16,886,502.43	1.30	16,886,502.43	–	13,655,402.49	1.40	13,385,756.40	269,646.09
Total	1,301,198,952.70	100.00	70,144,983.96	1,231,053,968.74	972,455,492.02	100.00	63,889,217.44	908,566,274.58

Among the above accounts receivable, there is no amount due from shareholder holding over 5% (including 5%) of the Company's share capital.

The top 5 companies owe a total amount of RMB372,994,478.55, accounting for 28.67% of the total ending balance.

The ending balance is 35% higher than the beginning balance, which is mainly due to the increase of sales volume.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.3 Accounts Receivable (Cont'd)

5.3.2 Parent Company

Aging	Ending Balance				Beginning Balance			
	Amount	Percentage (%)	Provision for Bad Debts	Net Amount	Amount	Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	879,867,139.18	90.81	2,639,601.42	877,227,537.76	710,213,840.87	86.27	2,130,641.52	708,083,199.35
In the Second Year	4,861,887.67	0.50	725,550.58	4,136,337.09	59,962,470.62	7.28	26,927,630.40	33,034,840.22
In the Third Year	40,119,456.92	4.14	27,137,732.35	12,981,724.57	17,673,072.74	2.15	8,169,768.23	9,503,304.51
In the Fourth Year	15,255,933.66	1.57	12,980,239.26	2,275,694.40	5,865,479.99	0.71	4,342,872.82	1,522,607.17
In the Fifth Year	12,672,981.14	1.31	6,928,041.79	5,744,939.35	15,867,103.79	1.93	7,170,585.09	8,696,518.70
Above 5 Years	16,139,625.77	1.67	16,139,625.77	-	13,655,402.49	1.66	13,385,756.40	269,646.09
Total	968,917,024.34	100.00	66,550,791.17	902,366,233.17	823,237,370.50	100.00	62,127,254.46	761,110,116.04

Among the above accounts receivable, no amount is due from shareholder holding over 5% (including 5%) of the Company's share capital.

The top 5 companies owe a total amount of RMB372,994,478.55, accounting for 38.50% of the total ending balance. The ending balance is 19% higher than the beginning balance, which is mainly due to the increase of sales volume.

5.4 Other Receivables

5.4.1 Consolidated

Aging	Ending Balance				Beginning Balance			
	Amount	Percentage (%)	Provision for Bad Debts	Net Amount	Amount	Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	145,002,385.65	30.12	4,969,937.91	140,032,447.74	221,143,942.44	36.95	4,066,893.12	217,077,049.32
In the Second Year	169,802,704.95	35.26	11,343,338.22	158,459,366.73	148,117,160.80	24.74	31,254,739.71	116,862,421.09
In the Third Year	61,737,956.66	12.82	27,782,732.84	33,955,223.82	153,209,068.71	25.59	22,821,260.14	130,387,808.57
In the Fourth Year	34,928,798.74	7.25	16,666,591.36	18,262,207.38	21,110,483.08	3.53	14,512,837.07	6,597,646.01
In the Fifth Year	18,689,200.67	3.88	13,941,635.21	4,747,565.46	16,009,851.67	2.67	10,401,970.33	5,607,881.34
Above 5 Years	51,406,502.64	10.67	38,127,257.49	13,279,245.15	39,024,213.98	6.52	28,974,398.73	10,049,815.25
Total	481,567,549.31	100.00	112,831,493.03	368,736,056.28	598,614,720.68	100.00	112,032,099.10	486,582,621.58

Among the year-end balance, RMB1,764,925.83 is due from Eastern Air Group Company, a shareholder holding 62% of the Company's share capital.

The top 5 companies owe a total amount of RMB245,588,650.98, accounting for 51.00% of the total ending balance.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.4 Other Receivables (Cont'd)

5.4.2 Parent Company

Aging	Ending Balance				Beginning Balance			
	Amount	Percentage (%)	Provision for Bad Debts	Net Amount	Amount	Percentage (%)	Provision for Bad Debts	Net Amount
Within 1 Year	760,548,914.01	70.11	6,817,117.85	753,731,796.16	360,706,295.44	51.68	4,484,035.36	356,222,260.08
In the Second Year	167,402,548.78	15.43	11,223,330.41	156,179,218.37	137,058,789.19	19.63	21,994,307.15	115,064,482.04
In the Third Year	51,466,161.75	4.74	18,506,328.58	32,959,833.17	148,692,500.60	21.30	18,548,293.32	130,144,207.28
In the Fourth Year	59,855,571.47	5.52	12,197,498.58	47,658,072.89	10,069,055.58	1.44	3,548,147.57	6,520,908.01
In the Fifth Year	7,647,773.17	0.71	2,972,431.71	4,675,341.46	7,009,851.67	1.00	1,401,970.33	5,607,881.34
Above 5 Years	37,805,502.64	3.49	24,586,857.49	13,218,645.15	34,524,213.98	4.95	24,474,398.73	10,049,815.25
Total	1,084,726,471.82	100.00	76,303,564.62	1,008,422,907.20	698,060,706.46	100.00	74,451,152.46	623,609,554.00

Among the year-end balance, RMB1,764,925.83 is due from Eastern Air Group Company, a shareholder holding 62% of the Company's share capital.

The top 5 companies owe a total amount of RMB750,705,984.00, accounting for 69.21% of the total ending balance.

5.5 Prepayments

Aging	Ending Balance		Beginning Balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 Year	51,566,416.00	54.23	96,282,270.92	100.00
In the Second Year	42,574,728.46	44.77	–	–
In the Third Year	954,635.00	1.00	–	–
Total	95,095,779.46	100.00	96,282,270.92	100.00

Among the year-end balance, no amount is due from shareholder holding over 5% (including 5%) of the Company's share capital.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.6 Inventory

Aging	Amount	Ending Balance		Amount	Beginning Balance	
		Provision for Impairment	Net Value		Provision for Impairment	Net Value
Aircraft Consumables	933,185,736.25	291,334,709.95	641,851,026.30	869,004,306.66	261,438,788.72	607,565,517.94
High-price Rotables	1,279,064,929.47	37,156,192.97	1,241,908,736.50	1,426,593,716.61	-	1,426,593,716.61
Common Appliance	16,041,238.71	-	16,041,238.71	18,311,071.70	-	18,311,071.70
Materials purchase	14,719,510.18	-	14,719,510.18	-	-	-
Low-price Consumables	-	-	-	1,190,791.15	-	1,190,791.15
Sub-contracted materials	1,638,649.01	-	1,638,649.01	-	-	-
Others	43,186,023.96	-	43,186,023.96	21,029,196.97	-	21,029,196.97
Total	2,287,836,087.58	328,490,902.92	1,959,345,184.66	2,336,129,083.09	261,438,788.72	2,074,690,294.37

5.7 Expenses to be Amortized

Category	Beginning Balance	Increase, current	Amortization, Balance	Ending current
Aircraft operating Lease obligations	76,081,728.37	502,122,926.94	492,228,389.40	85,976,265.91
Aircraft insurance	12,039,441.92	158,066,110.60	161,616,809.60	8,488,742.92
Duties and value-added tax of aircraft under operating lease	5,626,459.31	28,904,651.62	31,779,723.98	2,751,386.95
Tickets printing expenses	369,206.22	1,361,515.40	1,292,769.40	437,952.22
Others	3,232,146.72	16,145,342.66	16,527,070.47	2,850,418.91
Total	97,348,982.54	706,600,547.22	703,444,762.85	100,504,766.91

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment

5.8.1 Consolidated

Item	Ending Balance			Beginning Balance		
	Amount	Provision for Impairment	Net Value	Amount	Provision for Impairment	Net Value
Stock investment	360,000.00	–	360,000.00	360,000.00	–	360,000.00
Other equity investment:						
Subsidiaries	76,595,748.76	1,758,050.62	74,837,698.14	55,886,065.46	1,758,050.62	54,128,014.84
Associated companies	–	–	–	–	–	–
Affiliated companies	386,323,240.73	–	386,323,240.73	154,117,757.96	–	154,117,757.96
Other companies	–	–	–	–	–	–
Consolidation difference	(1,691,077.81)	–	(1,691,077.81)	–	–	–
Subtotal	461,227,911.68	1,758,050.62	459,469,861.06	210,003,823.42	1,758,050.62	208,245,772.80
Total	461,587,911.68	1,758,050.62	459,829,861.06	210,363,823.42	1,758,050.62	208,605,772.80

The ending balance of long-term equity investment is 119% higher than last year, which is mainly due to the investment in China Eastern Airlines Wuhan Co., Ltd..

5.8.1.1 Stock investment

Investee Company	Type of Shares	Quantity of Shares	% of the Registered Capital	Ending Balance		Value
				Amount	Provision Market	
Huning Expressway Co., Ltd.	Legal person shares	200,000.00	–	360,000.00	–	2,460,000.00

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.1.2 Other equity investment

Investee Company	Investment Period	% of Shareholders' Equity	Amount	Ending Balance Including: Investment Difference	Provision for Impairment
Eastern Airlines Industrial Co., Ltd.	30 years	85.86%	60,100,000.00	–	–
Qi Lu Eastern Airlines Catering Co., Ltd.	15 years	65.00%	12,003,243.27	–	–
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	12 years	40.00%	22,110,977.36	–	–
Eastern China Kaiya System Integration Co., Ltd.	No limit	37.00%	11,664,979.06	–	–
Shanghai Hongpu Civil Airport Communication Co., Ltd.	10 years	30.00%	7,541,576.54	–	–
Yantai Eastern Air Catering Co., Ltd.	15 years	40.00%	4,003,979.76	–	–
Eastern Air Group Finance Co., Ltd.	20 years	25.00%	110,193,520.00	(4,430,551.01)	–
Eastern (Shantou) Economic Development Co., Ltd.	15 years	55.00%	3,686,525.35	(7,360,466.75)	–
China Eastern Airlines Wuhan Co., Ltd.	30 years	40.00%	203,447,438.66	73,247,387.30	–
CAAC Information Network Co., Ltd.		0.30%	4,090,000.00	–	–
Eastern Aviation Advertising Service Co.	No limit	45.00%	15,761,641.74	2,253,600.95	–
Eastern Union Freight (HK) Co., Ltd.	No limit	41.00%	2,822,602.26	–	–
China Eastern Airlines Jiangsu Catering Co.	3 years	100.00%	498,000.00	–	498,000.00
Jiangsu Eastern Airlines Trade Co., Ltd.	15 years	55.00%	1,100,000.00	–	1,100,000.00
Jiangsu Eastern Airlines Industrial Co., Ltd.	19 years	70.00%	160,050.62	–	160,050.62
Jiangsu Eastern Airlines International Travel Agency Co., Ltd.	30 years	70.00%	1,050,000.00	–	–
Jiangnan Tourist (Hong Kong) Co.	No limit	100.00%	641,100.00	–	–
Eastern Airlines Jiangsu Advertisement Co., Ltd.	No limit	100.00%	893,354.87	–	–
Jiangsu Suying Labor Service Co., Ltd.	10 years	90.00%	150,000.00	–	–
Hengtai Insurance Brokerage Co., Ltd.	No limit	3.33%	1,000,000.00	–	–
Total			462,918,989.49	63,709,970.49	1,758,050.62

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.1.3 Equity Investment Difference

Investee Company	Original Amount	Amortization Period	Current Period Amortization	Remaining Amount	Reason
Eastern Air Group Finance Co., Ltd.	(5,538,188.77)	10 years	(553,818.88)	(4,430,551.01)	Note 1
Eastern (Shantou) Economic Development Co., Ltd.	(8,178,296.39)	10 years	(817,829.64)	(7,360,466.75)	Note 1
China Eastern Airlines Wuhan Co., Ltd.	76,432,056.31	10 years	3,184,669.01	73,247,387.30	Note 2
Eastern Aviation Advertising Service Co.	2,253,600.95	10 years	–	2,253,600.95	Note 1

Note 1: The transaction price is determined with reference to evaluated net assets. The difference between evaluated net assets and the carrying amount of net assets of subsidiaries is accounted for as equity investment difference.

Note 2: The former Wuhan Airlines took part in the incorporation of China Eastern Airlines Wuhan Co., Ltd. with its evaluated net assets, some of them are not recognized according to the accounting policy of the Company and the net assets on contribution date are adjusted accordingly.

5.8.1.4 Consolidation Difference

Investee Company	Original Amount	Amortization Period	Amortization this Period	Remaining Balance
Shanghai Eastern Fudart Transportation Services Co., Ltd.	(1,853,287.13)	10 years	(162,209.32)	(1,691,077.81)

5.8.2 Parent Company

Item	Amount	Ending Balance Provision for Impairment	Net Value	Amount	Beginning Balance Provision for Impairment	Net Value
Stock investment	–	–	–	–	–	–
Other equity investment:						
Subsidiaries	1,488,882,375.22	–	1,488,882,375.22	1,006,461,914.08	–	1,006,461,914.08
Associated companies	–	–	–	–	–	–
Affiliated companies	382,500,638.47	–	382,500,638.47	151,113,403.53	–	151,113,403.53
Other companies	–	–	–	–	–	–
Subtotal	1,871,383,013.69	–	1,871,383,013.69	1,157,575,317.61	–	1,157,575,317.61
Total	1,871,383,013.69	–	1,871,383,013.69	1,157,575,317.61	–	1,157,575,317.61

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.8 Long-term Equity Investment (Cont'd)

5.8.2.1 Other Equity Investment

Investee Company	Investment Period	% of Shareholders' Equity	Amount	Ending Balance Including: Equity Investment Difference	Provision for Impairment
China Eastern Airlines Jiangsu Co., Ltd.	No limit	55.00%	144,178,332.00	-	-
Shanghai Eastern Flight Training Co., Ltd.	50 years	95.00%	332,801,577.75	-	-
Eastern Airlines Industrial Co., Ltd.	30 years	85.86%	60,100,000.00	-	-
China Cargo Airlines Co., Ltd.	No limit	70.00%	645,140,915.50	-	-
Qi Lu Eastern Airlines Catering Co., Ltd.	15 years	65.00%	12,003,243.27	-	-
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	12 years	40.00%	22,110,977.36	-	-
Eastern China Kaiya System Integration Co., Ltd.	No limit	37.00%	11,664,979.06	-	-
Shanghai Hongpu Civil Airport Communication Co., Ltd.	10 years	30.00%	7,541,576.54	-	-
Yantai Eastern Air Catering Co., Ltd.	15 years	40.00%	4,003,979.76	-	-
Eastern Air Group Finance Co., Ltd.	20 years	25.00%	110,193,520.00	(4,430,551.01)	-
Eastern (Shantou) Economic Development Co., Ltd.	15 years	55.00%	3,686,525.35	(7,360,466.75)	-
Shanghai Eastern Airlines Investment Co., Ltd.	20 years	98.34%	294,658,306.70	-	-
China Eastern Airlines Wuhan Co., Ltd.	30 years	40.00%	203,447,438.66	73,247,387.30	-
CAAC Information Network Co., Ltd.		0.30%	4,090,000.00	-	-
Eastern Aviation Advertising Service Co.	No limit	45.00%	15,761,641.74	2,253,600.95	-
Total			1,871,383,013.696	3,709,970.49	-

5.8.2.2 Equity Investment Difference

Investee Company	Original Amount	Amortization Period	Current Period Amortization	Remaining Balance	Reason
Eastern Air Group Finance Co., Ltd.	(5,538,188.77)	10 years	(553,818.88)	(4,430,551.01)	Note 1
Eastern (Shantou) Economic Development Co., Ltd.	(8,178,296.39)	10 years	(817,829.64)	(7,360,466.75)	Note 1
China Eastern Airlines Wuhan Co., Ltd.	76,432,056.31	10 years	3,184,669.01	73,247,387.30	Note 2
Eastern Aviation Advertising Service Co.	2,253,600.95	10 years	-	2,253,600.95	Note 1

Note 1: For detailed reason please refer to 5.8.1.3.

Note 2: For detailed reason please refer to 5.8.1.3.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.9 Long-term Debt Investment

Item	Ending Balance		Net Value	Beginning Balance		Net Value
	Amount	Provision for Impairment		Amount	Provision for Impairment	
Bond	542,124,759.14	–	542,124,759.14	501,722,616.34	–	501,722,616.34

5.9.1 Long-term Bond Investment (Unit: USD)

Category	Par value	Initial Cost	Interest Rate per Annum	Maturity	Interest Accrued, Current	Interest Accrued, Current	Ending Balance Amount	Provision for Impairment
US Treasury Zero								
Coupon Bonds	71,475,000.00	27,810,207.00	8.0435477%	Feb. 2004	4,875,951.00	37,685,154.91	65,495,361.91	–

The ending balance is equivalent to RMB542, 124,759.14 with the exchange rate of 8.2773 prevailing at the end of the year.

5.10 Fixed Assets

Cost

	Beginning Balance	Increase	Decrease	Ending Balance
Self-purchased Aircraft	5,869,303,738.57	3,424,715,551.16	–	9,294,019,289.73
Aircraft Engines	1,647,780,457.11	122,548,222.95	21,290,000.00	1,749,038,680.06
Aircraft Held under Financial Lease	18,155,940,338.31	–	3,169,738,000.00	14,986,202,338.31
Building & Premises	1,798,590,070.78	236,220,545.77	17,146,533.06	2,017,664,083.49
Equipment	1,419,713,014.20	107,186,795.79	12,035,522.27	1,514,864,287.72
Vehicles	712,188,570.80	127,058,688.95	17,299,696.73	821,947,563.02
Total	29,603,516,189.77	4,017,729,804.62	3,237,509,752.06	30,383,736,242.33

Accumulated Depreciation

	Beginning Balance	Increase	Decrease	Ending Balance
Self-purchased Aircraft	2,446,674,460.40	1,787,356,817.78	–	4,234,031,278.18
Aircraft Engines	760,982,376.59	70,514,386.20	20,651,300.00	810,845,462.79
Aircraft Held under Financial Lease	7,700,386,442.43	643,224,178.19	2,509,247,495.27	5,834,363,125.35
Building & Premises	232,231,012.31	70,685,014.34	5,180,758.32	297,735,268.33
Equipment	699,214,115.91	123,044,321.56	9,979,203.13	812,279,234.34
Vehicles	432,126,595.05	88,916,692.10	14,430,083.93	506,613,203.22
Total	12,271,615,002.69	2,783,741,410.17	2,559,488,840.65	12,495,867,572.21

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.10 Fixed Assets (Cont'd)

Net Value

	Beginning Balance	Increase	Decrease	Ending Balance
Self-purchased Aircraft	3,422,629,278.17	1,637,358,733.38	–	5,059,988,011.55
Aircraft Engines	886,798,080.52	52,033,836.75	638,700.00	938,193,217.27
Aircraft Held under Financial Lease	10,455,553,895.88	(643,224,178.19)	660,490,504.73	9,151,839,212.96
Building & Premises	1,566,359,058.47	165,535,531.43	11,965,774.74	1,719,928,815.16
Equipment	720,498,898.29	(15,857,525.77)	2,056,319.14	702,585,053.38
Vehicles	280,061,975.75	38,141,996.85	2,869,612.80	315,334,359.80
Total	17,331,901,187.08	1,233,988,394.45	678,020,911.41	17,887,868,670.12

Provision for Impairment

	Beginning Balance	Increase	Decrease	Ending Balance
Self-purchased Aircraft	3,570,000.00	–	–	3,570,000.00
Aircraft Engines	–	–	–	–
Aircraft Held under Financial Lease	–	–	–	–
Building & Premises	–	–	–	–
Equipment	–	–	–	–
Vehicles	–	–	–	–
Total	3,570,000.00	–	–	3,570,000.00

The increase of fixed assets this year includes RMB780,825.40 thousand transferred from construction-in-progress. The decrease of fixed assets this year is due to the transfer of aircraft held under financial lease to self-purchased aircraft and sale of aircraft. The net value of aircraft sold out is RMB107,577.30 thousand and the gains are RMB28,168.80 thousand. Among the ending balance, a net value of RMB1,017,004.10 of aircraft is collateralized.

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5. Notes to Main Items of Financial Statements (Cont'd)

5.11 Construction-In-Progress

Item	Beginning Balance	Increase	Decrease		Ending Balance	Source of Fund	Progress
			Transfer to Fixed Assets	Other Decrease			
Advance Payment for							
A320 Aircraft	7,229.29	1,708,934,489.13	-	-	1,708,941,718.42	Loans, self-financing	Uncompleted
Advance payment for							
A340 Aircraft	739,494,727.46	605,531,164.38	-	-	1,345,025,891.84	Loans, self-financing	Uncompleted
Logistics Center (II)							
of Pudong Airport	45,733,938.80	188,439,012.26	141,883,360.50	8,460.00	92,281,130.56	Self-financing	Uncompleted
Deposit of A340-600 standby engine	-	27,879,888.39	-	-	27,879,888.39	Self-financing	Uncompleted
Xiamen International							
Travel Building	27,700,000.00	-	-	-	27,700,000.00	Self-financing	Uncompleted
Modification of							
BFEA340-600MSN488	-	22,857,057.52	-	-	22,857,057.52	Self-financing	Uncompleted
No. 3 Apartment of							
Block K-3, Pudong							
Airport	15,695,408.32	2,613,296.86	-	-	18,308,705.18	Self-financing	Uncompleted
Modification of							
BFEA340-600MSN468	-	18,059,430.72	-	-	18,059,430.72	Self-financing	Uncompleted
Modification of							
A340BFE into B2381	15,278,341.30	1,455,751.26	-	-	16,734,092.56	Self-financing	Uncompleted
Modification of							
A340BFE into B2380	7,182,841.32	9,380,755.19	-	-	16,563,596.51	Self-financing	Uncompleted
Modification of							
A340BFE into B2384	6,019,365.65	9,856,960.89	-	-	15,876,326.54	Self-financing	Uncompleted
Overhaul of Eastern							
Air Mansion	3,029,887.42	12,025,744.77	-	-	15,055,632.19	Self-financing	Uncompleted
Modification of							
A340BFE into B2383	7,706,746.48	6,014,172.68	-	-	13,720,919.16	Self-financing	Uncompleted
Modification of							
A340BFE into B2382	12,764,059.30	(395,544.53)	-	-	12,368,514.77	Self-financing	Uncompleted
Modification of							
BFEA320-200	-	12,058,775.31	-	-	12,058,775.31	Self-financing	Uncompleted

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.11 Construction-In-Progress (Cont'd)

Item	Beginning Balance	Increase	Decrease		Ending Balance	Source of Fund	Progress
			Transfer to Fixed Assets	Other Decrease			
Transformer Substation	14,940.00	8,336,047.00	-	-	8,350,987.00	Self-financing	Uncompleted
Modification of BFEA340-600MSN514	-	7,622,916.57	-	-	7,622,916.57	Self-financing	Uncompleted
Flight Building	6,760,000.00	-	-	-	6,760,000.00	Self-financing	Uncompleted
Advance Payment for B737 Aircraft	332,131,697.13	167,272,976.42	492,742,513.22	-	6,662,160.33	Loans, self-financing	Uncompleted
Garage for Special Vehicles	3,421,217.11	2,416,894.18	-	-	5,838,111.29	Self-financing	Uncompleted
Aircraft Garage at Changbei	499,541.37	4,387,907.73	-	-	4,887,449.10	Self-financing	Uncompleted
Garbage Disposal Center	2,892,316.72	1,780,635.00	-	-	4,672,951.72	Self-financing	Uncompleted
Aircraft Appliance Warehouse	4,360,000.00	-	-	-	4,360,000.00	Self-financing	Uncompleted
Office for No. 9 Lochus, Military Police	3,800,000.00	-	-	-	3,800,000.00	Self-financing	Uncompleted
24 Apartments	3,628,099.95	-	-	-	3,628,099.95	Self-financing	Uncompleted
Others (78 items)	156,156,254.52	46,609,340.27	146,199,560.16	32,835,924.14	23,730,110.49		
Total	1,394,276,612.14	2,863,137,672.00	780,825,433.88	32,844,384.14	3,443,744,466.12		

Including: Capitalized interests

Item	Beginning Balance	Increase	Decrease	Ending Balance
Advance Payment for A340 Aircraft	39,550,569.48	50,746,316.58	-	90,296,886.06
Advance Payment for A320 Aircraft	-	26,179,195.38	-	26,179,195.38
Advance Payment for B737 Aircraft	3,404,764.81	28,040,343.92	30,370,125.90	1,074,982.83
Pudong Base	11,378,169.51	-	11,378,169.51	-
Total	54,333,503.80	104,965,855.88	41,748,295.41	117,551,064.27

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5. Notes to Main Items of Financial Statements (Cont'd)

5.11 Construction-In-Progress (Cont'd)

Provision for impairment of construction-in-progress

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

The year-end balance of construction-in-progress is 148% higher than beginning balance, mainly due to the increase of prepayment for purchase of aircraft.

5.12 Intangible Assets

Category	Land Use Right	Premise Use Right	Software	Others	Total
Initial Amount	1,306,788,133.64	43,732,860.00	5,038,325.19	1,077,165.00	1,356,636,483.83
Acquisition Method	Contribution/self-purchase	Self-purchase	Self-purchase	Self-purchase	
Beginning Balance:					
Amount	1,226,853,084.56	40,904,987.34	183,333.36	913,401.63	1,268,854,806.89
Less: Provision for Impairment	–	–	–	–	–
Net Value	1,226,853,084.56	40,904,987.34	183,333.36	913,401.63	1,268,854,806.89
Increase:	31,848,894.71	–	4,788,325.19	–	36,637,219.90
Decrease:					
Transfer out	887,250.00	–	–	254,896.63	1,142,146.63
Amortization	29,253,857.55	898,427.16	558,914.40	135,720.00	30,846,919.11
Provision (write-off) of impairment	–	–	–	–	–
Subtotal	30,141,107.55	898,427.16	558,914.40	390,616.63	31,989,065.74
Ending Balance:					
Amount	1,228,560,871.72	40,006,560.18	4,412,744.15	522,785.00	1,273,502,961.05
Less: Provision for Impairment	–	–	–	–	–
Net Value	1,228,560,871.72	40,006,560.18	4,412,744.15	522,785.00	1,273,502,961.05
Remaining Months	56~576	4~552	48~59	40~47	

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.13 Long-term Amortization Charges

	Customs Duties and VAT on Aircraft Held under Operating Lease	Supervision Charges on Aircraft with Tax Reduction	Flying Crew Training Expenses	Aircraft Modification Expenses	Uniform Cost	Other Deferred Expenses	Total
Initial Amount	202,056,671.12	3,090,236.61	119,388,000.00	123,711,771.90	40,701,383.05		
Beginning Balance	68,518,341.01	1,545,118.41	38,018,909.39	67,906,346.36	18,668,825.05	35,839,800.90	230,497,341.12
Increase	12,070,313.36		49,742,000.00	12,412,157.57	9,328,166.70	883,602.42	84,436,240.05
Amortization	16,017,760.56	309,023.64	23,898,078.39	8,080,687.08	12,091,582.65	6,434,201.87	66,831,334.19
Ending Balance	64,570,893.81	1,236,094.77	63,862,831.00	72,237,816.85	15,905,409.10	30,289,201.45	248,102,246.98
Accumulated Amortization	137,485,777.31	1,854,141.84	55,525,169.00	51,473,955.05	24,795,973.95		
Remaining Months	39-40 months	17 months	7-44 months	84-96 months			

5.14 Deferred Tax Debits

5.14.1 Consolidated

Item	Ending Balance	Beginning Balance
Provision for Bad Debts	33,917,994.63	32,727,092.78
Provision for Impairment of Inventory	50,535,492.19	40,338,264.61
Provision for Impairment of Fixed Assets	535,500.00	535,500.00
Provision for Impairment of Construction-in-progress	1,500,000.00	1,500,000.00
Provision for Impairment of Long-term Investment	580,156.70	580,156.70
Tax Losses Carried Forward	141,476,924.86	31,753,211.26
Depreciation	(182,463,110.06)	(62,355,183.53)
Investment Gains	(1,470,102.85)	(318,747.13)
Total	44,612,855.47	44,760,294.69

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5. Notes to Main Items of Financial Statements (Cont'd)

5.14 Deferred Tax Debits (Cont'd)

5.14.2 Parent Company

Item	Ending Balance	Beginning Balance
Provision for Bad Debts	20,701,465.62	19,869,333.03
Provision for Impairment of Inventory	44,649,956.26	34,708,314.51
Provision for Impairment of Fixed Assets	535,500.00	535,500.00
Provision for Impairment of Construction-in-progress	1,500,000.00	1,500,000.00
Provision for Impairment of Long-term Investment	–	–
Tax Losses Carried Forward	141,476,924.86	31,753,211.26
Depreciation	(182,463,110.06)	(62,355,183.53)
Investment Gains	(1,470,102.85)	(318,747.13)
Total	24,930,633.83	25,692,428.14

5.15 Short-term Loans

Category	Ending Balance	Beginning Balance
Credit Loans	4,501,508,747.03	300,000,000.00
Guarantee Loans	–	982,641,751.70
Total	4,501,508,747.03	1,282,641,751.7

The ending balance is 251% more than last year, which is mainly because the Company relies more on financing due to various investments.

5.16 Notes Payable

Item	Ending Balance	Beginning Balance
Commercial Acceptance Bills	411,246,877.94	–

The Company has signed some comprehensive credit facility contracts with China Minsheng Banking Corp. Ltd. Shanghai Branch, Shenzhen Development Bank Shanghai Branch, and Shanghai Pudong Development Bank Konggang Sub-branch this year. The notes payable are discounted commercial acceptance bills issued by banks for the purchase of equipment with discount interests born by the Company.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.17 Accounts Payable

	Ending Balance	Beginning Balance
Accounts Payable	371,620,243.08	251,391,559.30

Accounts payable refer to the amounts payable to other airlines, which have been billed but unsettled yet and the amounts payable for purchase of aviation equipment.

There is no amount due to shareholders holding more than 5% (including 5%) of the Company's voting shares.

The ending balance is 48% higher than the beginning balance, which is due to the increase of unsettled amount payable to other airlines.

5.18 Advances from Customers

	Ending Balance	Beginning Balance
Advances from Customers	61,085,495.49	57,525,967.87

The ending balance with an aging of over 3 years is RMB36,376,219.74, which is advance payment from customer for the purchase of 15-year premise use right. The advance payment is to be transferred to revenue in 15 years. The balance has not been transferred to revenue. There is no amount due to shareholders that hold more than 5% (including 5%) of the Company's voting shares.

5.19 International Sales in Advance of Carriage

<International Sales in Advance of Carriage> refers to the amount pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for international routes. On receipt of evidence of transportation provided by the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <International Sales in Advance of Carriage> has an ending credit balance of RMB733,115,841.87.

The ending balance of International Sales in Advance of Carriage is 36% higher than that of last year, which is mainly because the increase of ticket proceeds.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.20 Domestic Sales in Advance of Carriage

<Domestic Sales in Advance of Carriage> refers to the amount pending settlement resulting from the sale of passenger, cargo, mail and over-weighted luggage tickets for domestic routes. On receipt of the evidence of transportation from the Company or other airlines, the amount is then transferred to revenue or accounts payable respectively. <Domestic Sales in Advance of Carriage> has an ending credit balance of RMB141,852,544.34.

5.21 Payroll Payable

The ending balance of payroll payable is RMB60,770,968.76, 115% higher than last year, which is because the payroll and bonus is paid to staff in the next year.

5.22 Welfare Payable

The ending balance of welfare payable is RMB46,852,557.69, 45% higher than last year, which is because the Company has accrued more welfare fund due to the increase of total payroll.

5.23 Dividend payable

Item	Ending Balance	Beginning Balance
Dividends of Legal-person Shares	62,948,841.00	60,000,000.00
Dividends of Public Shares	37,339,000.00	37,339,000.00
Total	100,287,841.00	97,339,000.00

5.24 Tax Payable

Item	Ending balance	Beginning balance
Income Tax	122,686,423.44	84,705,366.97
Value-added Tax	1,836,551.03	20,179,599.25
Business Tax	54,464,186.81	45,216,696.64
City Construction Tax	4,287,710.88	3,265,116.08
Others	4,254,667.70	4,220,832.50
Total	187,529,539.86	157,587,611.44

5.25 Civil Aviation Infrastructure Levies Payable

The civil aviation infrastructure levies are charged at a certain percentage of the traffic revenue and are payable to CAAC. The year-end balance is RMB151,492,858.97, 38% less than that of last year, which is mainly because the Company has paid more this year.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.27 Other Payables

	Ending balance	Beginning balance
Other Payables	759,155,254.83	698,184,701.33

Among the ending balance, RMB19,134,851.02 is payable to Eastern Air Group Company, a shareholder holding over 5% of the Company's share capital.

The balance of other payables with an aging of over 3 years is RMB20,788,840.92, mainly unpaid flying crew training expenses and deposit from agents for tickets.

5.27 Accrued Expenses

Item	Ending Balance	Beginning Balance	Reason of Accrual
Aircraft Operating Lease Obligation	71,488,498.31	28,003,985.38	Accrued but not paid
Accrued Interest on Aircraft under Financial Lease	113,453,171.80	129,518,091.66	Accrued but not paid
Overhaul Expenses of Aircraft Engines	1,202,799,635.72	1,055,862,670.18	Accrued but not paid
Taking-off & Landing Charges	420,325,453.57	371,787,149.00	Accrued but not paid
Aircraft Fuel	307,475,642.31	162,609,835.91	Accrued but not paid
Food and Beverage	62,049,268.88	79,344,948.53	Accrued but not paid
Aircraft Insurance	12,446,521.30	3,687,972.37	Accrued but not paid
Flying Hours Expenses	10,786,374.12	8,664,909.48	Accrued but not paid
Flight Crew Training	8,162,818.47	2,441,386.50	Accrued but not paid
Off-Port Information Expense	56,288,250.93	20,663,272.88	Accrued but not paid
Rentals of Office Buildings	15,903,578.11	–	Accrued but not paid
Others	16,255,480.08	3,928,440.22	Accrued but not paid
Total	2,297,434,693.60	1,866,512,662.11	

5.28 Accrued Liability

The year-end balance of accrued liability is RMB365,973.00, 91.95% less than that of last year, which is because the Company has paid most of the amount.

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.29 Current Portion of Long-term Liabilities

Item	Ending Balance	Beginning Balance
Current Portion of Long-term Loans	984,952,960.00	100,000,000.00
Current Portion of Long-term Accounts Payable	2,524,415,084.78	2,844,416,833.25
Current Portion of Amount Payable due to Assets Transfer	30,000,000.00	30,000,000.00
Total	3,539,368,044.78	2,974,416,833.25

Current Portion of Long-term Accounts Payable is amount payable for fixed assets held under financial lease. Details are as follows:

Item	Ending Balance	Beginning Balance
The least payment for fixed assets held under financial lease	3,114,783,680.70	3,558,433,107.53
Less: Un-transferred financing expenses	590,368,595.92	714,016,274.28
Net amount of long-term accounts payable for fixed assets held under financial lease	2,524,415,084.78	2,844,416,833.25

5.30 Long-term Loans

Type	Ending Balance	Beginning Balance
Credit	2,348,556,295.63	450,000,000.00
Guaranteed	687,500,000.00	1,900,000,000.00
Collateralized	739,832,417.12	855,690,568.88
Total	3,775,888,712.75	3,205,690,568.88

The collateral of the collateralized loan are three Airbus A320 aircraft, of which the relevant procedures are still in process.

5.31 Long-term Accounts Payable

Item	Ending Balance	Beginning Balance
Accounts payable for fixed assets held under financial lease	7,393,355,532.98	9,021,810,379.06
Accounts payable to China Civil Aviation Flight Institute	180,000,000.00	210,000,000.00
Total	7,573,355,532.98	9,231,810,379.06

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.31 Long-term Accounts Payable (Cont'd)

5.31.1 Accounts Payable for Fixed Assets Held under Financial Lease

Item	Ending Balance	Beginning Balance
Least payment for fixed assets held under financial lease	8,502,268,858.55	10,686,613,933.50
Less: Un-transferred financing expenses	1,108,913,325.57	1,664,803,554.44
Net amount of long-term accounts payable for fixed assets held under financial lease	7,393,355,532.98	9,021,810,379.06

The ending balance of accounts payable for fixed assets held under financial lease is RMB7,393,355,532.98, which is payable to financial lease companies for aircraft held under financial lease. The balance includes USD652,359,569.47 translated at the exchange rate of @8.2773; DEM199,170,309.35, translated at @4.4155; JPY16,138,816,074.00, translated at @0.069035.

The net amount of accounts payable for fixed assets held under financial lease is RMB7,393,355,532.98, including RMB8,502,268,858.55 of least payment for fixed assets held under financial lease and 1,108,913,325.57 of un-transferred financing expenses.

5.31.2 The Company acquired the assets of Great Wall Airlines Co., which was under the jurisdiction of China Civil Aviation Flight Institute, at a price of RMB270 million. According to the transfer agreement, the Company will pay in installments in 9 years starting from June 2001. The Company paid RMB30,000,000.00 this year.

5.32 Deferred Tax Credits

Item	Ending Balance	Beginning Balance
Tangible Assets Donated	181,714.53	181,714.53
Assets Revaluation Increment	471,555.00	550,147.50
Total	653,269.53	731,862.03

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.33 Share Capital

	Beginning Balance	Change, Current	Ending Balance
I. Unlisted Shares			
1. Sponsors' Shares			
Including:			
State-owned Shares	3,000,000,000.00	–	3,000,000,000.00
2. Subscribed Legal Person Shares			
3. Internal Staff Shares			
Total Unlisted Shares	3,000,000,000.00	–	3,000,000,000.00
II. Listed Shares			
1. Domestically Listed RMB Common shares	300,000,000.00	–	300,000,000.00
2. Domestically Listed Foreign Invested Shares			
3. Overseas Listed Foreign Invested Shares	1,566,950,000.00	–	1,566,950,000.00
Total Listed Shares	1,866,950,000.00	–	1,866,950,000.00
III. Total Capital Shares	4,866,950,000.00	–	4,866,950,000.00

5.34 Capital Reserve

Item	Beginning Balance before Adjustment	Retrospective Adjustment	Beginning Balance after Adjustment	Increase	Decrease	Ending Balance
Premium on Shares	954,456,511.50	–	954,456,511.50	–	–	954,456,511.50
Reserve for Acquisition of Donated Non-monetary Assets	–	–	–	–	–	–
Reserve for Acquisition of Donation in Cash	–	–	–	120,000.00	–	120,000.00
Reserve for Equity Investment	29,728,008.58	–	29,728,008.58	–	–	29,728,008.58
Reserve for Asset Revaluation Increment	243,616,522.17	–	243,616,522.17	–	40,530,209.43	203,086,312.74
Other Capital Surplus Transferred In	35,011,332.21	(6,530,495.85)	28,480,836.36	41,238,115.24	–	69,718,951.60
Total	1,262,812,374.46	(6,530,495.85)	1,256,281,878.61	41,358,115.24	40,530,209.43	1,257,109,784.42

The adjustment of beginning balance is the shortfall between collected sales proceeds of apartments sold to staff and the estimated amount.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.34 Capital Reserve (Cont'd)

The current decrease of <Capital Surplus-Reserve for Asset Revaluation Increment> mainly refers to the amortization of asset evaluation increment of RMB400,948,524.29 formed during the restructuring of the Company. From year 1998, the balance is to be amortized into < Capital Surplus-Other Capital Surplus Transferred In> evenly over a period of 10 years.

5.35 Surplus Reserve

Item	Beginning Balance	Increase, Current	Decrease, Current	Ending Balance
Statutory Surplus Reserve	18,898,221.04	10,695,313.20	–	29,593,534.24
Public Welfare Fund	18,898,221.04	10,614,147.54	–	29,512,368.58
Discretionary Surplus Reserve	–	81,165.66	–	81,165.66
Total	37,796,442.08	21,390,626.40	–	59,187,068.48

5.36 Undistributed Profit

Undistributed Profit at the Beginning of the Year before Adjustment	73,814,681.06
Add: Retrospective adjustment of beginning balance	21,815,510.73
Including: Supplementary Public Housing Fund of 2001	(14,364,244.00)
Retrospective Adjustment of Income Tax	36,179,754.73
Undistributed Profit at the Beginning of the Year after Adjustment	95,630,191.79
Add: Current Profit	124,259,490.12
Distributable Profit	219,889,681.91
Less: Appropriation of Surplus Reserve	21,390,626.40
Appropriation of Staff Bonus & Welfare Fund	341,032.19
Dividends of Common Shares	97,339,000.00
Ending Balance	100,819,023.32

For details of adjustment to beginning balance please see Note 2.18.

The net profit this year is to make good the losses of 1998. The surplus reserve is appropriated by China Cargo Airlines Co., Ltd., a subsidiary included in the consolidation scope, according to after-tax profit. According to the resolutions of the second routine meeting of Board of Directors in 2003, the Company will distribute a 0.20 Yuan (tax included) cash dividend for every 10 shares, a total of 97,339,000 from the accumulated distributable profit.

(Prepared in accordance with PRC Accounting Regulations)
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5. Notes to Main Items of Financial Statements (Cont'd)

5.37 Revenue from Main Operations

5.37.1 Consolidated

5.37.1.1 Business Type

Item	Revenue		Cost	
	Year 2002	Year 2001	Year 2002	Year 2001
Air Transportation & Commission	13,379,279,059.75	12,827,712,817.74	10,213,367,112.89	9,886,672,302.59
Training	11,366,765.58	11,626,471.05	7,648,578.38	9,007,917.80
Total	13,390,645,825.33	12,839,339,288.79	10,221,015,691.27	9,895,680,220.39

5.37.1.2 Region

Item	Revenue		Cost	
	Year 2002	Year 2001	Year 2002	Year 2001
International	5,571,650,074.70	5,768,928,542.88	4,659,868,050.69	4,650,969,703.59
Regional	5,612,659,786.51	4,813,048,221.77	4,123,430,579.29	3,859,315,285.95
Total	2,206,335,964.12	2,257,362,524.14	1,437,717,061.29	1,385,395,230.85
	13,390,645,825.33	12,839,339,288.79	10,221,015,691.27	9,895,680,220.39

The revenue from top 5 customers is 1,518,598,534.88, representing 11.34% of the total revenue.

5.37.2 Parent Company

5.37.2.1 Business Type

Item	Revenue		Cost	
	Year 2002	Year 2001	Year 2002	Year 2001
Air Transportation & Commission	11,128,759,660.56	10,836,053,949.83	8,510,522,752.59	8,309,081,958.21

5.37.2.2 Region

Item	Revenue		Cost	
	Year 2002	Year 2001	Year 2002	Year 2001
Domestic	4,785,673,698.76	5,001,918,896.68	4,049,510,978.23	3,946,813,930.15
International	4,288,482,219.73	3,723,722,212.33	3,159,948,587.51	3,157,451,144.12
Regional	2,054,603,742.07	2,110,412,840.82	1,301,063,186.85	1,204,816,883.94
Total	11,128,759,660.56	10,836,053,949.83	8,510,522,752.59	8,309,081,958.21

The revenue from top 5 customers is 1,518,598,534.88, representing 13.65% of the total revenue.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.38 Business Tax and Additional

Item	Year 2002	Year 2001
Business Tax	276,858,909.03	269,785,481.57
City Construction Tax	18,863,070.34	18,577,736.86
Education Tax	8,716,110.60	8,473,660.99
Total	304,438,089.97	296,836,879.42

5.39 Other Operating Revenue

Item	Year 2002			Year 2001		
	Revenue	Cost	Profit	Revenue	Cost	Profit
Materials Transfer	11,804,244.71	9,030,533.64	2,773,711.07	4,087,328.78	2,469,459.47	1,617,869.31
Commission	693,951.91	21,554.30	672,397.61	10,026,677.53	329,724.02	9,696,953.51
Ground Service	583,620,478.71	221,787,109.39	361,833,369.32	455,072,792.31	106,971,029.18	348,101,763.13
Aircraft Sub-lease	208,460,506.76	40,001,610.61	168,458,896.15	196,367,690.14	93,364,271.96	103,003,418.18
Fuel Surcharges	304,340.85	15,202.24	289,138.61	74,641,151.06	2,530,625.06	72,110,526.00
Others	15,324,492.24	5,044,469.18	10,280,023.06	11,244,634.58	4,695,288.15	6,549,346.43
Total	820,208,015.18	275,900,479.36	544,307,535.82	751,440,274.40	210,360,397.84	541,079,876.56

5.40 Financial Expenses

Item	Year 2002	Year 2001
Interest Expenses	884,500,906.00	916,161,454.66
Less: Interest Income	77,326,940.51	78,968,249.81
Exchange Losses	256,550,847.45	31,143,057.54
Less: Exchange Gains	223,508,872.85	173,291,160.98
Others	4,305,655.88	4,676,902.51
Total	844,521,595.97	699,722,003.92

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.41 Investment Gains

5.41.1 Consolidated

Item	Year 2002	Year 2001
Stock Investment Gains	490,645.16	–
Bond Investment Gains	40,357,799.48	37,354,688.77
Profit Distributed by Investee Company Accounted with Cost Method	–	152,417.88
Net Increase (Decrease) of Shareholders' Equity of Investee Companies		
Adjusted at the End of the Year	(17,939,062.73)	12,614,291.41
Amortization of Equity Investment Difference	(1,650,811.17)	553,818.88
Others	–	6,621,294.94
Total	21,258,570.74	57,296,511.88

The investment gain is 63% less than last year, which is mainly because China Eastern Airlines Wuhan Co., Ltd., a new investee company, has incurred losses, which is included in the income statement of the Company with equity method.

5.41.2 Parent Company

Item	Year 2002	Year 2001
Stock Investment Gains	–	–
Bond Investment Gains	40,357,799.48	37,354,688.77
Net Increase (Decrease) of Shareholders' Equity of Investee Companies		
Adjusted at the End of the Year	147,933,467.28	50,437,071.40
Amortization of Equity Investment Difference	(1,813,020.49)	–
Others	–	6,621,294.94
Total	186,478,246.27	94,413,055.11

5.42 Subsidy Income

Item	Year 2002	Year 2001
Financial Subsidy	54,810,000.00	750,000.00

5.42.1 With the approval of Shanghai government and relevant authorities, the Company is granted a lump-sum financial subsidy of 40 million for the move of international flights to Pudong International Airport.

5.42.2 Ningbo Branch was granted an interest subsidy of 13.61 million from Ningbo Finance Bureau.

5.42.3 With the approval of Shanxi Provincial Department of Finance, Shanxi Branch was granted a financial subsidy of 1.20 million for Taiyuan-Hong Kong route.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

5. Notes to Main Items of Financial Statements (Cont'd)

5.43 Non-operating Income

Item	Year 2002	Year 2001
Net Gains on Disposal of Fixed Assets	28,417,571.21	18,128,464.28
Penalty Income	1,978,443.48	2,939,939.96
Others	504,608.71	12,243,975.36
Stock Profit of Fixed Assets	26,248.80	–
Total	30,926,872.20	33,312,379.60

5.44 Non-operating Expenses

Item	Year 2002	Year 2001
Net Loss on Disposal of Fixed Assets	19,473,309.88	11,706,036.58
Stock Shortage of Fixed Assets	174,574.89	–
Penalties	1,707,403.00	1,570,182.50
Donation	1,860,218.19	668,359.77
Aircraft Lease Termination Charge	–	19,057,766.57
Provision for Impairment of Fixed Assets	–	3,570,000.00
Asset Collateral Expense	–	6,546,797.00
Others	5,110,348.15	5,140,673.24
Total	28,325,854.11	48,259,815.66

The non-operating expenses have decreased by 41% compared with last year, mainly because the expenditure of aircraft lease termination charge, provision for impairment of fixed assets and asset collateral expense of last year was huge in amount while there is no such kind of expense this year.

5.45 Income Tax

The income tax this year is 69,812,153.90, calculated on the profit of the parent company and subsidiaries. Tax effects of taxable temporary timing differences are recognized as deferred income tax liabilities. Tax effects of deductible temporary timing differences are recognized as deferred income tax assets.

5.46 Other Important Items in Cash Flows Statement

- 5.46.1 The cash paid relating to other financing activities is RMB2,120,509,604.36, payment of principal and interests of financial lease obligations.

6. Related Party Relationships and Transactions

6.1 Related Parties with Control Relationship

6.1.1 Brief Introduction of Related Parties with Control Relationship

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

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
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6. Related Party Relationships and Transactions (Cont'd)

6.1 Related Parties with Control Relationship (Cont'd)

6.1.2 Registered Capital and its Movement of Related Parties with Control Relationship

Company	Beginning Balance	Increase, Current	Decrease, Current	Ending Balance
Eastern Air Group Company	748,970,000	–	–	748,970,000
Shanghai Eastern Flight Training Co., Ltd.	358,000,000	–	–	358,000,000
Qi Lu Eastern Air Catering Co. Ltd.	13,366,667.20	–	–	13,366,667.20
Jiangsu Eastern Airlines Traveling Agency Co., Ltd.	1,500,000	–	–	1,500,000
Eastern Airlines Industrial Co., Ltd.	49,500,000	20,500,000	–	70,000,000
China Cargo Airlines Co. Ltd.	500,000,000	–	–	500,000,000
Jiangnan Tourism (Hong Kong) Co.	641,100	–	–	641,100
China Eastern Airlines Jiangsu Co., Ltd.	257,503,600	–	–	257,503,600
Eastern Airlines Jiangsu Advertisement Co.	300,000	–	–	300,000
Shanghai Eastern Fudart Transportation Services Co., Ltd.	–	USD1,000,000	–	USD1,000,000

6.1.3 Stock Held and its Movement of Related Parties with Control Relationship

Company	Beginning Balance		Increase, Current		Decrease, Current		Ending Balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Eastern Air Group Company	3,000,000,000.00	62.00	–	–	–	–	3,000,000,000.00	62.00
Shanghai Eastern Flight Training Co., Ltd.	340,100,000.00	95.00	–	–	–	–	340,100,000.00	95.00
Qi Lu Eastern Aviation Catering Co.	8,688,333.68	65.00	–	–	–	–	8,688,333.68	65.00
Jiangsu Eastern Airlines Traveling Agency Co., Ltd.	825,000.00	38.50	–	–	–	–	825,000.00	38.50
Eastern Airlines Industrial Co., Ltd.	39,600,000.00	80.00	20,500,000.00	5.86	–	–	60,100,000.00	85.86
China Cargo Airlines Co. Ltd.	350,000,000.00	70.00	–	–	–	–	350,000,000.00	70.00
Jiangnan Tourism (H.K.) Co.	352,605.00	55.00	–	–	–	–	352,605.00	55.00
China Eastern Airlines Jiangsu Co., Ltd.	141,626,980.00	55.00	–	–	–	–	141,626,980.00	55.00
Eastern Airlines Jiangsu Advertisement Co.	893,354.87	55.00	–	–	–	–	893,354.87	55.00
Shanghai Eastern Fudart Transportation Services Co., Ltd.	–	–	7,088,244.40	51.00	–	–	7,088,244.40	51.00

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

6.1 Related Parties with Control Relationship (Cont'd)

6.1.4 Transactions with Related Parties with Control Relationship (Unit: RMB'000)

6.1.4.1 Transaction Amount with Related Parties

6.1.4.1.1 Supply of Food and Beverage

Company	Year 2002	Year 2001
Qi Lu Eastern Air Catering Co. Ltd.	8,823	6,426

6.1.4.1.2 Lease

The Company leases an office building from Eastern Airline Group Company for a period of 50 years (from Jan. 1, 1999 to Jan. 1, 2049). The total rent is RMB16 million, which has been paid off this year.

6.1.4.1.3 Acquisition of Equity

The Company purchased 51% of the equity of Shanghai Eastern Fudart Transportation Services Co., Ltd. from Eastern Airline Group Company at a price of RMB7,088,000, according to the book value of net assets on the date stipulated in the agreement.

The Company purchased 45% of the equity of Eastern Aviation Advertising Service Co. from Eastern Airline Group Company at a price of 15,762,000, according to the evaluated net assets on the date stipulated in the agreement.

The Company purchased 55% of the equity of Eastern (Shantou) Economic Development Co., Ltd. from Eastern Airline Group Company at a price of RMB2,750,000, according to the amount recognized by Eastern Airline Group Company on contribution.

6.1.4.2 Amount Due From or To the Related Parties

	Ending Balance	Beginning Balance
Other Receivables: GEA Group	1,765	638
Other Payables: GEA Group	19,135	34,605
Jiangsu Eastern Airlines Traveling Agency Co.	11,950	5,569

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

6.2 Related Parties without Control Relationship but have Transactions with the Company

6.2.1 Nature of Relation with Related Parties without Control Relationship

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

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

6.2 Related Parties without Control Relationship but have Transactions with the Company (Cont'd)

6.2.2 Amount of Related Party Transactions

6.2.2.1 Purchase

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

Company	Year 2002	Year 2001
Eastern Aviation Import and Export Company	3,414,820	1,148,260
Shanghai Eastern Air Industrial Corporation	13,893	10,688
Qingdao Air Service Co., Ltd.	12,751	10,926
Shanghai Eastern Air Catering Co., Ltd.	117,242	101,160
Eastern (Shantou) Economic Development Co., Ltd.	46,666	52,821
Shanghai Eastern Aviation Equipment Manufacturing Corporation	8,394	6,434
Eastern Aviation Advertising Service Co.	4,758	4,329

6.2.2.2 Service

The services provided by related parties are as follows.

Company	Year 2002	Year 2001
Eastern Aviation Import and Export Company	20,156	14,605
Shanghai Eastern Air Industrial Corporation	35,055	24,362
Shanghai Eastern Real Estate Operation Co.	3,291	5,794
Shanghai Eastern Aviation Equipment Manufacturing Corporation	50	–
Shanghai Aviation Printing co., Ltd.	1,594	3,799
Shanghai Eastern General Service Co.	1,683	15,318
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	24,146	19,205
Eastern Aviation Advertising Service Co.	99	2,656
Shanghai Eastern Development Co.	6,485	6,246
Shanghai Dongmei Aviation Corporation Limited	11,302	5,424

6.2.2.3 Lease

The Company paid a rent of RMB4,509 thousand to Shanghai Eastern Aviation Equipment Manufacturing Corporation for the lease of buildings and equipment.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

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

6.2 Related Parties without Control Relationship but have Transactions with the Company (Cont'd)

6.2.2.4 Supply of Fund

The placement of deposit by the Company in Eastern Air Group Finance Co., Ltd. generated an interest income of 2,738 thousand in 2002.

6.2.2.5 Finance

Then Company paid an interest of 1,373 thousand for borrowings from Eastern Air Group Finance Co., Ltd..

6.2.3 Amounts Due to or From the Related Parties

6.2.3.1 Accounts Receivable:

Company	Dec. 31, 2002	Dec. 31, 2001
Shanghai Eastern Development Co.	20,455	10,120
Shanghai Tourism (Hong Kong) Co., Ltd.	58,190	26,568
Shanghai Dongmei Aviation Corporation Limited	24,589	25,886
Eastern International Tourism Transportation Co., Ltd.	11,012	14,852
Eastern (Zhoushan) Tourism Industrial Development Co.	5,762	5,555
Shanghai Travel Service (Hong Kong) Co., Ltd.	102,551	92,585
Shanghai Civil Aviation Dongda Industrial Co.	1,273	1,447
China Eastern Airlines Wuhan Co., Ltd.	256	–

6.2.3.2 Accounts Payable

Company	Dec. 31, 2002	Dec. 31, 2001
Eastern Aviation Import and Export Company	131,236	179,514

6.2.3.3 Other receivables

Company	Dec. 31, 2002	Dec. 31, 2001
Eastern Aviation Import and Export Company	8,520	1,677
Eastern Aviation Advertising Service Co.	1,392	1,392
Shanghai Eastern Air Industrial Corporation	6,237	6,237
Shanghai Eastern Air Catering Co., Ltd.	15,590	30,000
Shanghai Eastern Air Real Estate Management Co.	–	677
China Eastern Airlines Wuhan Co., Ltd.	2,185	–

(Prepared in accordance with PRC Accounting Regulations)
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6. Related Party Relationships and Transactions (Cont'd)

6.2 Related Parties without Control Relationship but have Transactions with the Company (Cont'd)

6.2.3.4 Prepayments

Company	Dec. 31, 2001	Dec. 31, 2000
Shanghai Eastern Aviation Equipment Manufacturing Corporation	454	–
Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co.	–	953
Eastern Aviation Import and Export Company	29,695	–

6.2.3.5 Other Payables

Company	Dec. 31, 2002	Dec. 31, 2001
Eastern Aviation Import and Export Company	7,502	33,175
Shanghai Eastern Air Industrial Corporation.	–	64
Shanghai Eastern Air Catering Co., Ltd.	–	108
Eastern Automobile Repair Works	4,193	5,087
Shanghai Eastern Air Real Estate Management Co.	–	1,662

6.2.3.6 Other Related Party Transactions

Emoluments for key management personnel

	Year 2002	Year 2001
Number of key executives	10	9
Emoluments	1,549	1,028

7. Commitment

7.1 Financial Lease Commitment

According to the irrevocable financial lease contract, the least financial lease commitment as of Dec. 31, 2002 is equivalent to RMB116,17.00 million. The lease payable in 2003, 2004 and 2005 is about 2,223.00 million, 2,376.00 million and 1,489.00 million respectively.

7.2 Operating Lease Commitment

According to the irrevocable operating lease contract, the least lease commitment as of Dec. 31, 2002 is 7,044.00 million. The lease payable in 2003, 2004 and 2005 is 1,035 million, 1,010 million and 977 million respectively.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

7. Commitment (Cont'd)

7.3 Capital Expenditure Commitment

The Company signed an agreement with an independent third party for the purchase of five Airbus A340 aircraft, which are to be delivered in 2003 and 2004.

The Company signed an agreement with an independent third party to purchase twenty Airbus A320 aircraft. Among the twenty aircraft, 10 are to be delivered in 2003, 5 are to be delivered in 2004 and 5 are to be delivered in 2005.

The Company signed an agreement with an independent third party to purchase five CFM56 engines. Of the five engines, one is to be delivered in 2006, 2 are to be delivered in 2007 and 2 are to be delivered in 2008.

8. Contingent Event

8.1 China Eastern Airlines Jiangsu Co., Ltd. ("Jiangsu Co."), a company of which 55% of the share capital is held by the Company, issued a guarantee of RMB150 million for Nanjing Lukou International Airport Co., Ltd. to obtain bank loans from China Construction Bank, Jiangsu Branch. The guarantee period is from December 24, 1998 to October 20, 2004.

8.2 The Company estimates that there will be lots of foreign exchange reserve including foreign exchange in currencies of Southeast Asia from the sale of air tickets even after repayment of foreign currency debts such as financial lease commitment and aircraft payment. Considering the continuing devaluation and instability of politics and economy of this area, it is probable that the Company will face great foreign exchange risk. To lower this risk, the Company signed some forward and swap contracts with domestic banks in 2002. By Dec. 31, 2002, the Company still has the following contracts:

8.2.1 Foreign Exchange/Interest Rate Swap (Unit: USD in thousand)

Tenor	Nominal Principal
2003.1.16-2003.10.16	22,624
2003.10.16-2005.10.16	19,824
2005.10.16-20010.10.16	14,244
2002.12.10-2010.9.10	22,525
2003.1.2-2004.7.1	9,538
2003.12.22-2006.12.22	22,000

8. Contingent Event (Cont'd)

8.2.2 Foreign Exchange Forwards (Unit: USD in thousand)

Settlement Date	USD Principal Purchased
The 25th day of every month from Jan. 25, 2004 to Dec. 25, 2006	5,000

9. Unadjusted Events after Balance Sheet Date

- 9.1** According to the resolution of Shareholders' Meeting, the registered capital of China Eastern Airlines Jiangsu Co., Ltd., 55% of its equity is held by the Company, will be raised from RMB258 million to RMB1 billion. The relevant procedures are still in progress.
- 9.2** The Company signed an agreement with China Eastern Airlines Jiangsu Co., Ltd.. According to the agreement, the Company will sell three Airbus A320 aircraft to China Eastern Airlines Jiangsu Co., Ltd. and is scheduled to be delivered in 2003.
- 9.3** According to the equity transfer agreement signed between the Company, China Ocean Shipping (Group) Company ("COSCO") and China Airlines, Ltd., CEA will transfer 15% of its shares to China Airlines, Ltd.. Meanwhile the registered capital of the Company will be raised to RMB1.5 billion. The percentage of shares held by CEA after the transfer is 55%. The transfer and capital increase has already been approved by Civil Aviation Administration of China and State Planning Commission in Jan. 2003.
- 9.4** According to the resolution of Board of Directors, the registered capital of Shanghai Eastern Flight Training Co., Ltd., 95% of its equity held by the Company, will be increased from 358 million to 473 million. The relevant procedure has been completed on Jan. 10, 2003.
- 9.5** The Company has established Shanghai Eastern Aircraft Maintenance Co., Ltd. jointly with China Aircraft Engineering Investment Co., Ltd. (Hong Kong). The total investment is USD6 million and the registered capital is USD3.10 million. Of the total equity, 60% is held by the Company and 40% is held by China Aircraft Engineering Investment Co., Ltd. (Hong Kong). Shanghai Eastern Aircraft Maintenance Co., Ltd. obtained business license on Nov. 27, 2002. The capital verification was completed on Jan. 13, 2003.
- 9.6** The Company has signed the following contracts with domestic banks in 2003 with the same purpose stated in paragraph 8.2:

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Regulations)
Year ended 31 December 2002

9. Unadjusted Events after Balance Sheet Date (Cont'd)

9.6.1 Foreign Exchange Short-term Investment Agreements (Unit: USD in thousand)

Tenor	Principal	Interest Rate
2003.2.27-2003.3.6	8,000	1.10%
2003.2.20-2003.2.26	22,000	1.10%

9.6.2 Foreign Exchange Forwards (Unit: USD in thousand)

Settlement	Exchange USD with JPY
2004	11,941
2005	11,941
2006	11,941
2007	9,403

10. Other Significant Event

The Company signed a contract with Rockwell Collins International, Inc. In Sept. 2002 to jointly establish Shanghai Collins Aviation Maintenance Service Co., Ltd. The total investment is USD14 million and the registered capital is USD7 million. The Company holds 35% of the shares. The relevant procedures are still in progress.

No other significant event such as debt restructure has occurred this year that will influence the comprehension of the report.

11. Approval of Financial Statements

The financial statements were approved by Board of Directors on April 7, 2003.

12. Comparison

To conform to the principle of consistency, some beginning balances and figures of last year have been reclassified or restated.