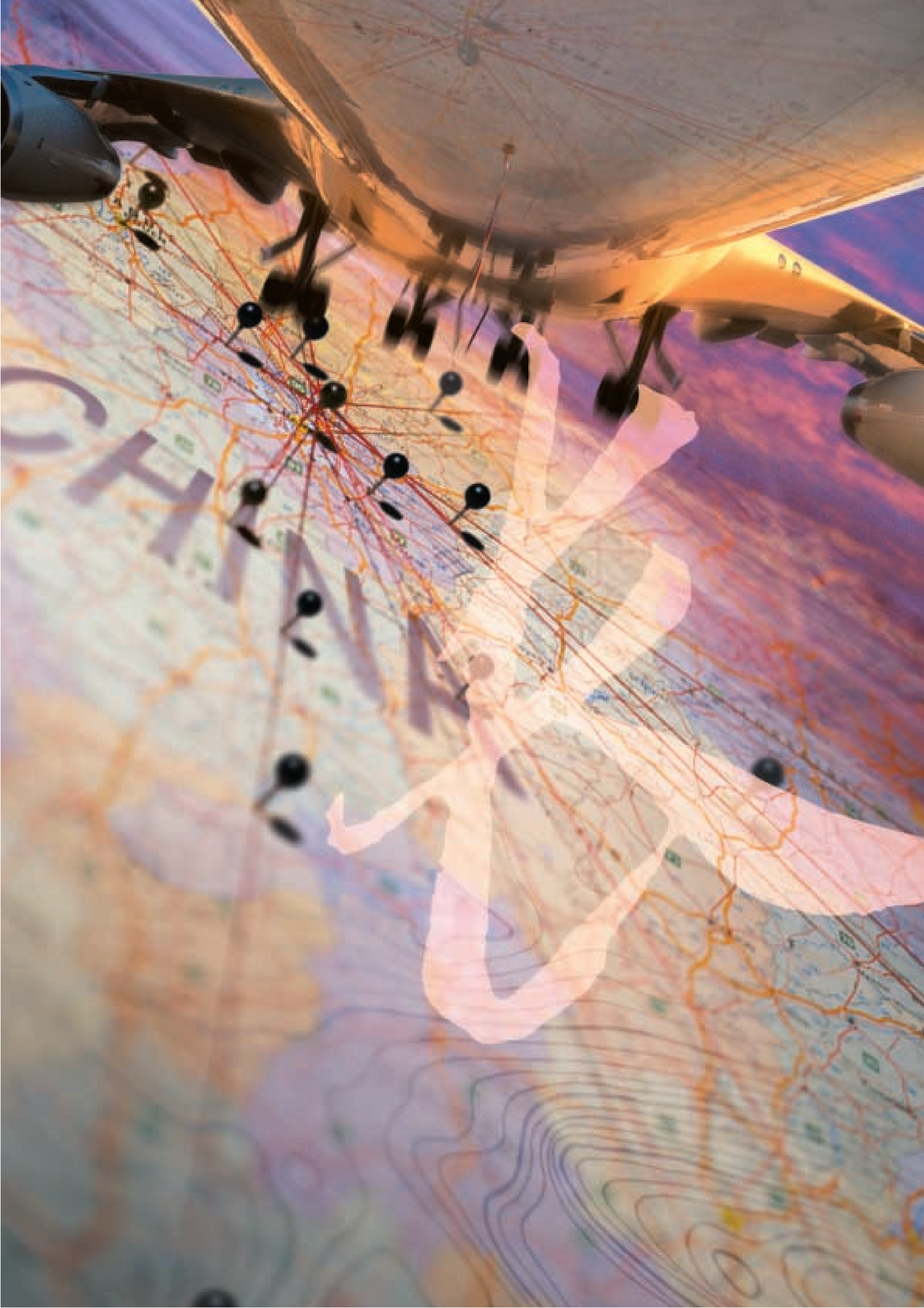
CHINA

Ye Yigan, Chairman

Dear shareholders,

I am pleased to present the report on the operating results of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2003. On behalf of all the staff of the Group, I would like to extend my sincere thanks to the shareholders for their support of the Group.

In 2003, the global aviation industry faced a lot of challenges and difficulties. The Iraq war and the outbreak of SARS worsened the situation while the industry was struggling to recover from the "September 11" tragedy. In particular, the outbreak and rapid spread of SARS in certain areas of Asia in the first half of 2003 caused a dramatic shrinking in passenger demand, which for a moment created a difficult situation for the Chinese airline operators. During the period of SARS, the Group made all efforts to minimize the damage by postponing plans of new aircraft acquisitions, canceling or consolidating certain flights, cutting the salaries of all employees and so on. In the second half of 2003, as the epidemic was gradually brought under control and the domestic passenger market started to make a strong comeback in the third quarter, the Group decided to complete its

The Company welcomed its first Airbus A340-600 aircraft on July 30, 2003.

acquisitions of the aircraft of which the delivery had been postponed in the first half of the year and promptly put them into service. The Group also actively adjusted the allocation of passenger and cargo capacity and improved its route network in response to changes in the market demand. In addition, the Group allocated its best aircraft to, and increased the flight frequency of, the high-yielding routes with high demand. In 2003, the Company successively launched the new passenger routes of Shanghai-Phuket and Shanghai-Melbourne and the new cargo routes of Shanghai-Beijing-Luxembourg and Shanghai-Anchorage-Los Angeles-San Francisco, and consequently further improved its route network and created advantage in certain international routes. Based on our detailed market studies, we terminated the relatively low-yielding route of Shanghai-Munich-Madrid and increased the flight frequency on the Shanghai-Paris route in order to retain European passengers. The launch of the international transit route from Sydney to Paris via Shanghai improved our capacity and quality in terms of providing transit services. We enhanced our competitiveness by replacing the older MD-11 with the newly acquired Airbus A340-600 to serve on the China-U.S. routes. A seat reservation service was launched on the Shanghai-Hong Kong route. In addition, we encouraged foreign passengers to come to China through brand marketing activities at appropriate times and promotion of our service packages such as "China Eastern Express" and "China Shuttle".

We closely cooperated with SABRE Corporation, an American company, and established an airline operating control system (AOC). We further consolidated our marketing system by setting up four major departments – Flight Scheduling and International Operations, Revenue Management, Passenger Information Management and Cargo Management, and three marketing management networks in the eastern, northern and southern areas of China, with Shanghai, Beijing and Guangzhou as the center of each area, respectively. The Company entered into an agreement with PROS Corporation, an American company, for the development of a revenue management system in order to expedite the integration of our revenue management data. Due to the successful implementation of these strategies, the Company's capacity control system and marketing system were well positioned to respond to the demand of market developments.

In August 2003, the Group's frequent flyer club changed its name to "Eastern Miles" and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels and restaurants who are our strategic partners. We achieved our goal of one million members before the end of last year. We therefore have greatly enhanced the recognition and competitiveness of our services. Our electronic ticket service and online payment service also developed steadily, since the electronic ticket service was launched in Shanghai, Beijing, Guangzhou and Wuhan in September 2003.

Compared to 2002, the Group's traffic volume increased by 9.63% to 2,908 million tonne-kilometers in 2003. Revenues from the Group's transportation business were RMB13,448 million in 2003, an increase of RMB966 million or 7.73%. Compared to 2002, the average aircraft daily utilization decreased by 0.6 hours to 8.0 hours in 2003.

Compared to 2002, our passenger revenues increased by 2.2 % to RMB10,261 million in 2003, accounting for 76.30% of our total revenues in 2003. The volume of passenger traffic was 18,003 million passenger-kilometers, a 1.12% decrease compared to 2002.

Our domestic passenger traffic volume was 10,302 million passenger-kilometers in 2003, a 20.97% increase compared to 2002. Compared to 2002, the revenues increased by 19.74% to RMB 5,592 million in 2003, accounting for 54.50% of our total passenger revenues in 2003. The increase in the revenues from our core business in 2003 was largely driven by our domestic passenger transportation business. As a result of the recovery of the domestic passenger market during the second half of the year, we allocated more capacity to domestic routes. Our nationwide domestic passenger capacity increased by 17.89% compared to 2002.

The passenger traffic volume on our Hong Kong routes was 1,934 million passenger-kilometers in 2003, a 13.44% decrease compared to 2002. Compared to 2002, the revenues decreased by 14.86% to RMB1,627 million in 2003, accounting for 15.85% of our total passenger revenues in 2003. The passenger traffic capacity on our Hong Kong routes increased by 1.17% compared to 2002.

Our international passenger traffic volume was 5,767 million passenger-kilometers in 2003, a 22.66% decrease compared to 2002. Compared to 2002, the revenues decreased by 12.00% to RMB3,042 million in 2003, accounting for 29.65% of our total passenger revenues in 2003. The passenger capacity on international routes

At 23:55 on December 31, 2003, the Management met the arrival of the last flight at Pudong International Airport and celebrated for the realization of the tenth consecutive Flight Safety Year.

decreased by 5.92% compared to 2002. Our international passenger business slowed down in 2003 due to the fact that China was listed by the World Health Organization as an area seriously affected by SARS, as well as a number of other factors such as the effect of Iraq war and the terrorism.

Our cargo and mail traffic volume was 1,296 million tonne-kilometers in 2003, a 26.74% increase compared to 2002. Compared to 2002, the freight revenues increased by 30.36% to RMB3,187 million in 2003, accounting for 22.32% of our total revenues in 2003. We increased our freight charges to an appropriate level in response to the increasing demand from import and export trade following China's accession to the WTO. In addition, we successively remodeled three MD-11 passenger aircraft into freighters during the second half of 2003 to expand our freighter fleet in response to the rapid growth of our cargo business.

Compared to 2002, our operating costs increased by 14.84% to RMB14,058 million in 2003.

Expenditure on aviation fuel reached RMB3,045 million, a 18.77% increase compared to 2002. In 2003 the Group consumed a total of 1,023,700 tonnes of aviation fuel, an increase of 8.81% compared to 2002. Due to the Iraq war, average domestic and international aviation fuel prices increased by 10.60% and 3.63%, respectively, compared to 2002.

The wages, salaries and benefits were RMB1,449 million in 2003, a 39.89% increase compared to 2002, largely because our work force increased by approximately 5% compared to 2002, and most of our newly hired staff are pilots and cabin crew in order to meet the requirements of our fleet expansion. In addition, in accordance with relevant government regulations and with reference to the policies implemented by enterprises in nearby region, the Company formulated a staff housing allowance policy in 2003. As the housing allowance standard under the new housing policies is higher than the standard to which the Company made reference in 2000 and the number of eligible employees also increased, the Company recognised a related provision of RMB340 million as at December 31, 2003, which is RMB260 million higher than the provision of RMB80 million made in 2000. The incremental provision was fully charged to current year's income statement.

The takeoff and landing charges were RMB2,254 million, a 13.41% increase compared to 2002, due largely to the increase of domestic airport charges with effect from September 1, 2002. Our domestic takeoffs and landings increased by 20.14% compared to 2002.

In addition, the Japanese Yen and the Euro have a significant percentage in our debt structure. Due to the appreciation of the Japanese Yen and the Euro against the Renminbi in 2003, the Group booked an exchange loss of RMB70.33 million in 2003.

In summary, the losses attributable to shareholders were RMB950 million for the year ended December 31, 2003.

As of December 31, 2003, the Group had a total of 16,435 employees, most of whom work in China. The employees' compensation is primarily composed of the basic salary and performance-based bonus. There were no labor disputes between the Group and its employees. The Group did not experience a material loss of employees or encounter any difficulties in recruiting new employees.

In January 2001, we joined the employee medical insurance scheme introduced by the Shanghai government. The Group and the employees pay premiums at the approximate rates of 12% and 2%, respectively, of the basic salary. We are not liable for any medical costs other than our contributions to the scheme. We believe that the implementation of the scheme will have no serious impact on our operations and finances.

We finance our working capital requirements by the funds generated from operations and short-term bank loans. As of December 31, 2002 and December 31, 2003, we had cash and cash equivalents of RMB1,945 million and RMB1,583 million, respectively. In 2002 and 2003, our net cash inflows generated by operating activities were RMB2,160 million and RMB3,267 million, respectively, while our net cash outflows used in investment activities were RMB4,543 million and RMB7,409 million, respectively. In the past two years, our primary cash requirements were the funds for the acquisitions and upgrades of aircraft and flight equipment and debt repayments. Our net cash inflow generated from financing activities in 2002 was RMB2,956 million, and that in 2003 was RMB3,764 million, both primarily from bank loans.

We generally operate with a working capital deficit. As of December 31, 2003, our current liabilities exceeded our current assets by RMB9,941 million. For years we have arranged, and we believe that we will be able to continue to arrange, short-term loans through domestic banks in China and foreign-funded banks to meet our working capital requirements. As of December 31, 2002 and December 31, 2003, the total amounts of our short-term loans were RMB4,527 million and RMB4,632 million, respectively, and our long-term loans were RMB6,495 million and RMB11,223 million, respectively.

We generally finance our purchase of aircraft through operating leases and bank loans secured by our assets. As of December 31, 2003, the total value of our mortgaged assets increased by 197.52%, from RMB3,272 million as of the end of 2002 to RMB9,735 million.

Outlook for 2004

We would like to caution readers of this report that the operations of the air transportation industry are substantially influenced by global political and economical developments. Accidents, unexpected incidents, etc. may have a material impact on our operations or the industry as a whole. This 2003 annual report of the Group contains, *inter alia*, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to numerous uncertainties and risks.

In 2003, the development of the global economy was not severely restrained by certain events which occurred in the first half of the year. As the U.S. economy becomes stronger, the recovery of the global economy seems to be sustainable. Asia will continue to be the fastest growing area in the world. As a fast growing region in Asia, China has achieved impressive economic performance. The Chinese government has effectively implemented the economic restructuring and its open-door policies, which have laid a solid foundation for the steadfast economic growth. Moreover, China's economy is further energized by the gradual recovery of the global economy and China's admission to the WTO.

Today, globalization is a trend of the economic development in the world. Such trend not only strengthens the economic interconnections among countries but also generates an increase in trade and commercial activity. Since China's admission to the WTO, it has been playing an increasingly important and active role in the economic globalization. As a result, while the regional economic integration has accelerated the general economy, it has also boosted the fast growth of the aviation market in this region.

Along with the further growth of China's economic strength and the further improvement of Chinese people's consumption level, tourism by air travel is gradually becoming a fast growing business in China. China has a large territory, a large population and very rich tourist resources. It presents great potential for the development of air transportation. The Group is determined to grasp the business opportunities created by large events, holidays and travel seasons, make timely adjustments to the allocation of its transportation capacity, increase its traffic volume and boost its operating revenues.

Shanghai, where the Group's headquarters is located, is one of the major cities in China with a fast growing economy and is becoming a center of China's economy, trading, finance and aviation. To our knowledge, the Civil Aviation Administration of China ("CAAC") and the Shanghai municipal government are cooperating to push ahead a plan to turn Shanghai into an Asia-Pacific aviation hub. We believe that the construction of such aviation hub will further enhance the economic globalization in the Shanghai area and bring to us a significant amount of passenger and cargo resources. At the same time, it will also intensify the competition in the region's aviation market. As one of the most important airlines based in Shanghai, we will devote efforts to achieve a steady expansion of our market share in the Shanghai area, optimize our route network, develop attractive services, increase investment in the construction of our operating hubs and get ourselves well prepared for challenges and opportunities.

In September 2003, the CAAC made an official announcement to close down 23 provincial-level CAAC divisions and hand over 93 airports around the country to local governments, which is part of the restructuring whereby those airports will be run as enterprises. In the recent years, the airlines and ground service enterprises directly under the CAAC completed their primary restructuring and were consolidated into six large groups. The restrictions on foreign investments in China's civil aviation industry were also further lifted. These changes reflect the increased speed at which China's civil aviation industry implemented its restructuring. Following many deliberations, the Pricing Reform Plan for the Domestic Civil Aviation Industry was approved by China's State Council and will become effective on April 20, 2004. Under this plan, the government will formulate pricing guidelines for the domestic air transport market. This plan has clarified that the governmental price authorities will no longer directly set the prices for various routes. Instead, direct control of governmental price authorities over airfares will be changed to indirect control through the setting of the basic rates and price ranges for air transportation by such governmental price authorities. Airlines will be able to determine their own airfares within the ranges set by the governmental price authorities and adopt more flexible sales policies. Based on our understanding of the current development of the industry and the government policies, we expect that, as reforms continue to accelerate in 2004, the rights and obligations of both regulatory authorities and business operators will be further clarified and standardized, the operators' power to manage their own business will be further enhanced, and the supervision of a regulated and orderly market and a fair and positive competition mechanism will provide a favorable environment for the growth of the Group's business.

To our knowledge, some relevant government authorities and the CAAC are discussing the possibility of exempting airline operators from making contributions to the civil aviation infrastructure construction funds, in order to further the industry restructuring and to alleviate the cost burden of air transport enterprises. In addition, domestic airline operators benefited from China's admission to the WTO, which resulted in lower cost of aircraft fuel and favorable policies relating to reduction in import tariffs on aviation equipment. It is also expected to reduce our unit operating cost by opening up businesses relating to computer reservation systems and aircraft maintenance to foreign investments.

In order to implement the State Council's strategic restructuring plan for the aviation industry and to accelerate the consolidation of airline operations, we are in the process of accelerating the integration of our safety management, fleet development, marketing, service standards and equipment allocations, in order to enhance our competitiveness and expand our business.

In light of the market environment and our current operations, we plan to implement the following strategies in order to enhance our competitiveness in 2004:

The Company held a press conference on December 5, 2003 for its "Shanghai – Melbourne" route.

1. To ensure flight safety and enhance service quality

Year 2003 was our 10th safe flight year. In 2004, the Group will further strengthen its safety management and supervision and establish a more scientific, efficient and standardized safety management network and operation supervision system.

The Group once again received the first prize in the activity known as "2003 Million Passengers' Appraisal of Civil Aviation" and organized by the China Civil Aviation Association, and for the third consecutive year ranked No. 1 in the group of the airlines that carry more than ten million passengers in a year. In 2004, we will continue to develop new service products and improve the diversification of our services. We will promote our "China Eastern Express", "China Shuttle" and "Easy Transit" services by enhancing the on-time arrival rate. We will also improve our "Quality Shanghai-Hong Kong Business Route" and eventually extend this tailored service to our Japanese and Korean routes. Furthermore, we will work towards seamless transits and connections of our international and domestic flights. We will also set up a call center to provide integrated package services such as for frequent flyers, flight enquiries, reservations, travel suggestions, passengers' complaints and so on. By assuring high-quality and safe flights, efficient operation support and customer-friendly transportation services, we believe that our reputation and competitiveness will be greatly enhanced.

2. **To optimize capacity allocation and increase market share**

In 2004, the Company plans to introduce and put into operation two Airbus A340-600 aircraft, five Airbus 320 aircraft and two Airbus A321 aircraft. With the support of our upgraded Airline Operation Control System (AOC), we will continue to optimize our capacity allocation and our route network, improve the efficiency of the allocation of our capacity resources and increase our aircraft utilization. Taking advantage of the opportunity created by the transformation of Shanghai into an international airport hub, the Group will continue to operate its business based on the strategy to "strengthen business in Europe, the U.S. and Australia, develop the business in Hong Kong, Japan and Korea, and expand the market in the greater Shanghai area and Eastern China." The Group will increase flights between major cities in China and foster more high-yielding trunk routes focusing on business passengers, based on its "China Eastern Express" services on the routes from Shanghai to Hong Kong, Beijing, Guangzhou and Shenzhen. We will also try to obtain more favorable takeoff slots while we increase our flight frequency. In addition, we will seize every opportunity to open new international routes with high market potentials and extend our international routes in cooperation with foreign carriers by entering into code sharing agreements. We aim to build up a superior route network centered in Shanghai that not only connects domestic major routes and supplemental routes, but also connects international routes and domestic routes. Moreover, we will closely monitor the tourist market, strengthen flight allocation during traditional festivals and holidays and arrange extra flights and charters as appropriate, in order to achieve full efficiency in capacity utilization.

3. **To improve marketing strategies and profitability**

(1) We will make every effort to complete the integration of the route pricing data system which is essential to our revenue management system, in order to create as early as possible a more up-to-date and sophisticated pricing system and enhance our route profitability.

(2) We will closely monitor the market movement and take proactive and flexible measures to increase our direct sales. We will continue to promote the Eastern Miles in our sales system in order to retain and attract higher-yielding business passengers.

(3) We will further standardize our agency channels, improve the incentive and constraint mechanism of our sales system, and closely cooperate with top-class tourist companies, in order to provide high-quality and diversified air tourist packages.

(4) We will further enhance the marketing and technical support of the e-ticket, gradually extend our e-ticket sales to all major airports in China, and eventually turn the e-ticket into a major method in our direct sales.

4. To strengthen our financial management and strictly control expenses

In 2004, the Group will experience considerable cost pressure due to the high price of air fuel, the leasing fees for new aircraft and the increased depreciation and amortization. The tightened credit control in China and abroad will make our financing more difficult. The Company plans to take the following measures to control our expenses to every extent possible:

(1) We will strengthen the management of our controllable expenses, such as air meals and agent commissions, closely monitor our cash outflow budget, block any unauthorized agent commissions, and effectively implement comprehensive budget management.

(2) We will strengthen our control of the risks related to foreign currencies and air fuel through reasonable financial derivative transactions and reduce the related cost;

(3) We will purchase our aviation equipment economically, implement resource sharing, reduce the aviation equipment in costs, and reduce maintenance costs.

(4) We will strengthen our control of investment activities, closely monitor the operations of the companies invested in and the returns they generate, in order to ensure investment profitability.

The Company topped the list of "Passengers' Rating of Civil Aviation Award" for three consecutive years in 2003.

The Company was honoured as a "Famous Trademark in Shanghai".

5. **To increase investment in capacity and expand cargo services**

   The Yangtze River Delta, the area experiencing the fastest economic development in China, is shaping itself into a major manufacturing base in the world. In response to the tremendous opportunities of cargo business in this region, the Group will put six MD-11 all-cargo aircraft into operation in 2004. We expect this newly added capacity will meet almost all of the capacity demand for the high-yielding cargo flights to and from the U.S., Japan and Europe and further improve the Group's leading position in the cargo market in Eastern China. Taking advantage of our passenger route network, we will fully utilize the usable cargo space in our passenger flights. We will also continue the construction of ancillary facilities in airport hubs, conduct detailed market studies to optimize our cargo structure, shorten cargo transit, and improve service quality of freight transits.

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

Ye Yigan
Chairman

Shanghai, China
5 April 2004