2000

Interim Report

中國東方航空股份有限公司
CHINA EASTERN AIRLINES CORPORATION LIMITED

The Board of Directors of China Eastern Airlines Corporation Limited (the "Company") would like to announce the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2000 with comparative figures for the corresponding period in 1999 as follows:-

FINANCIAL STATEMENTS

A. Prepared in accordance with International Accounting Standards ("IAS")

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30 June 2000
(Amounts in thousands unless otherwise stated)

	Note	(Unaudited) 2000 RMB	(Unaudited) As restated 1999 RMB	(Unaudited) 2000 US$	2000 vs 1999 Increase/ (Decrease) %
Traffic revenues					
Passenger		**4,160,833**	3,757,195	**502,637**	10.74
Cargo and mail		**989,384**	753,838	**119,520**	31.25
Other operating revenues		**192,993**	204,415	**23,314**	(5.59)
Turnover	3	**5,343,210**	4,715,448	**645,471**	13.31
Operating expenses					
Wages, salaries and benefits		**358,528**	340,433	**43,311**	5.32
Take-off and landing charges		**766,221**	757,009	**92,561**	1.22
Aircraft fuel		**951,257**	798,798	**114,914**	19.09
Food and beverages		**246,902**	211,670	**29,826**	16.64
Aircraft depreciation and operating leases		**1,044,394**	988,231	**126,165**	5.68
Other depreciation and operating leases		**134,409**	94,591	**16,237**	42.09
Aircraft maintenance	2, 5	**405,436**	314,778	**48,978**	28.80
Commissions		**308,715**	259,796	**37,293**	18.83
Office and administration		**377,545**	325,872	**45,608**	15.86
Other		**230,216**	192,899	**27,811**	19.35
Total operating expenses		**4,823,623**	4,284,077	**582,704**	12.59
Operating profit		**519,587**	431,371	**62,767**	20.45
Interest expense, net		**(404,680)**	(464,413)	**(48,886)**	(12.86)
Gain on disposal of aircraft	5	**98,413**	63,521	**11,888**	54.93
Other income		**100,855**	109,481	**12,183**	(7.88)
Profit before taxation		**314,175**	139,960	**37,952**	124.47
Taxation	4	**(81,732)**	(45,293)	**(9,873)**	80.45
Profit after taxation		**232,443**	94,667	**28,079**	145.54
Minority interests		**(28,766)**	2,304	**(3,475)**	(1,348.52)
Profit attributable to shareholders		**203,677**	96,971	**24,604**	110.04
Earnings per share	7	**RMB0.042**	RMB0.020	**US$0.005**	

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2000
(Amounts in thousands unless otherwise stated)

	Note	(Unaudited) 30 June 2000 RMB	(Audited) As restated 31 December 1999 RMB	(Unaudited) 30 June 2000 US$
Goodwill		**104,622**	107,450	**12,638**
Fixed assets and Construction in progress	9	**19,951,675**	20,172,201	**2,410,205**
Other non-current assets		**3,971,418**	4,040,740	**479,756**
Current assets				
Flight equipment spare parts less allowance for obsolescence		**397,872**	421,786	**48,064**
Receivables and prepayments		**2,407,335**	2,246,481	**290,811**
Deposits with related companies		**140,575**	364,166	**16,982**
Cash and bank balances		**976,644**	957,854	**117,981**
		3,922,426	3,990,287	**473,838**
Current liabilities				
Payables and accruals		**2,567,377**	2,446,303	**310,145**
Current portion of obligations under finance leases		**929,253**	1,105,735	**112,256**
Current portion of long-term loans		**491,939**	489,484	**59,427**
Loans from a related company		**40,000**	190,000	**4,832**
Short-term bank loans		**450,000**	415,586	**54,361**
		4,478,569	4,647,108	**541,021**
Net current liabilities		**(556,143)**	(656,821)	**(67,183)**
		23,471,572	23,663,570	**2,835,416**
Capital and reserves		**7,217,172**	7,013,495	**871,850**
Obligations under finance leases		**9,911,908**	10,451,536	**1,197,380**
Long-term loans		**4,117,241**	4,216,682	**497,371**
Other long term liabilities		**2,225,251**	1,981,857	**268,815**
		23,471,572	23,663,570	**2,835,416**

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2000
(Amounts in thousands unless otherwise stated)

(Unaudited)	Share Capital RMB	Reserves RMB	Retained profits RMB	Total RMB
At 1 January 2000				
As previously reported	**4,866,950**	**1,201,143**	**507,905**	**6,575,998**
Effect of adopting IAS 37 (Note 2)	**-**	**-**	**437,497**	**437,497**
As adjusted	**4,866,950**	**1,201,143**	**945,402**	**7,013,495**
Consolidated profit attributable to shareholders	**-**	**-**	**203,677**	**203,677**
At 30 June 2000	**4,866,950**	**1,201,143**	**1,149,079**	**7,217,172**
At 1 January 1999				
As previously reported	4,866,950	1,198,177	360,243	6,425,370
Effect of adopting IAS 37 (Note 2)	-	-	503,836	503,836
As adjusted	4,866,950	1,198,177	864,079	6,929,206
Consolidated profit attributable to shareholders	-	-	96,971	96,971
At 30 June 1999	4,866,950	1,198,177	961,050	7,026,177

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2000
(Amounts in thousands unless otherwise stated)

	(Unaudited) 2000 RMB	(Unaudited) 1999 RMB	(Unaudited) 2000 US$
Net cash inflow from operating activities	**969,914**	583,637	**117,168**
Net cash outflow from investing activities	**(550,156)**	(679,528)	**(66,460)**
Net cash outflow from financing activities	**(628,310)**	(612,843)	**(75,901)**
Net cash outflows	**(208,552)**	(708,734)	**(25,193)**
Cash and cash equivalents at 31 December	**1,315,172**	1,792,824	**158,876**
Exchange adjustment	**4,624**	(13,287)	**559**
Cash and cash equivalents at 30 June	**1,111,244**	1,070,803	**134,242**

Analysis of the balances of cash and cash equivalents

	(Unaudited) 30 June 2000 RMB'000	(Audited) 31 December 1999 RMB'000
Short-term deposits and bank balances	**976,644**	957,854
Deposits with related companies	**140,575**	364,166
Less: short-term deposits with original maturity over three months	**(5,975)**	(6,848)
	1,111,244	1,315,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of preparation**

The accompanying unaudited consolidated interim financial statements comprise the consolidated financial statements of the Company and all its subsidiaries as at 30 June 2000 and of the results for the six months ended 30 June 2000. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

The consolidated interim financial statements have been prepared in conformity with International Accounting Standards ("IAS"). This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory financial statements in the PRC. The statutory financial statements of the Group have been prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). Differences between PRC Accounting Regulations and IAS on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2000 and on the unaudited consolidated net assets as at 30 June 2000 are set out in Section C.

In addition, IAS differs in certain material respects from generally accepted accounting principles in the United States of America ("U.S. GAAP"). Differences between IAS and U.S. GAAP on the unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2000 and on the unaudited consolidated net assets as at 30 June 2000 are set out in Section D.

2. **Accounting policies**

During the period, the Group changed its accounting policy with respect to the recognition of major overhaul expenses for both owned aircraft and engines, as well as aircraft and engines held under finance leases. In previous years, the costs of major overhauls are estimated and charged to operating profit over the period between overhauls using the ratio of actual flying hours/cycles and estimated flying hours/cycles between overhauls. Differences between the estimated cost and the actual cost of the overhaul are included in the operating profit in the period of overhaul.

In 1998, the International Accounting Standards Committee issued a new accounting standard IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", which is effective for accounting periods beginning on or after 1 July 1999. Following the adoption of this new standard, major overhaul expenses for owned assets and assets held under finance leases are charged to the operating profit as and when incurred. Such new accounting policy has been applied retrospectively to these financial statements.

The effect of the above change in accounting policy is a decrease in aircraft maintenance expenses of RMB64,414,000 (1999:RMB48,792,000) and an increase in the consolidated profit attributable to shareholders of RMB43,157,000 (1999:RMB32,691,000) for the six months ended 30 June 2000. The retained profits as at 1 January 1999 has been increased by RMB503,836,000 which represents the cumulative effect of change in accounting policy in respect of periods prior to 1999.

Apart from the above, the accounting polices used in the preparation of these unaudited consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 1999.

3. Turnover

The Group is principally engaged in the provision of domestic, Hong Kong and international passenger, cargo and mail airline services. Turnover comprises revenues from airline and airline related services net of sales tax and civil aviation infrastructure levies. The turnover and operating profits/(losses) by geographical segments are analysed as follows:-

	For the six months ended 30 June (Unaudited)				
	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	Total RMB'000
2000					
Traffic revenues	**2,067,664**	**1,012,186**	**730,796**	**1,339,571**	**5,150,217**
Other operating revenues	**192,993**	**-**	**-**	**-**	**192,993**
Turnover	**2,260,657**	**1,012,186**	**730,796**	**1,339,571**	**5,343,210**
Operating profit/(loss)	**165,064**	**272,896**	**183,062**	**(101,435)**	**519,587**
1999					
Traffic revenues	2,003,516	939,003	528,823	1,039,691	4,511,033
Other operating revenues	204,415	-	-	-	204,415
Turnover	2,207,931	939,003	528,823	1,039,691	4,715,448
As restated Operating profit/(loss)	142,247	263,550	75,621	(50,047)	431,371

* Include United States of America, Europe and other Asian countries

4. Taxation

(a) Taxation in the consolidated profit and loss account represents:-

	(Unaudited) For the six months ended 30 June	
	2000 RMB'000	As restated 1999 RMB'000
Provision for PRC income tax	**16,242**	-
Deferred taxation	**65,490**	45,293
	81,732	45,293

Pursuant to the Circular (2000) no. 52 jointly issued by the Shanghai Municipal Financial Bureau and Shanghai Municipal State Tax Bureau, a subsidiary is exempt from and subject to a reduced income tax rate of 15% for the years ended 31 December 1999 and 2000 respectively. Except for the subsidiary, PRC income tax is calculated at the applicable tax rate of 33% (1999: 33%) on the estimated assessable profits for the period determined in accordance with the relevant PRC income tax rules and regulations.

(b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30 June 2000 as there exist double tax reliefs between PRC and the corresponding jurisdictions (including Hong Kong Special Administrative Region of the PRC ("Hong Kong")).

(c) Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets are recognised only to the extent that the deductible temporary differences are expected to be realised in the foreseeable future.

5. Gain on disposal of aircraft

In the previous year, the Company entered into a sales agreement with an independent third party to dispose of all its thirteen MD-82 aircraft. Three aircraft have been delivered during the six months ended 30 June 2000 (1999: Five aircraft) and the Company recognised gains totalled RMB98,413,000 (1999: RMB63,521,000) arising from the disposal which represents the difference between the sales proceeds and the net book value of these aircraft at the date of disposal.

Repairs and maintenance costs amounting to RMB47,185,000 (1999: RMB71,710,000) were incurred to meet the delivery conditions as set out in the sales agreement upon disposal. These are charged to the consolidated profit and loss account.

6. Interim dividend

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2000 (1999: Nil).

7. Earnings per share

The calculation of earnings per share is based on the unaudited consolidated profit attributable to shareholders of RMB203,677,000 (1999: restated profit of RMB96,971,000) and the weighted average number of 4,866,950,000 shares (1999: 4,866,950,000 shares) in issue during the period.

8. Profit appropriation

No appropriations from retained profits were made to the statutory reserves during the six months ended 30 June 2000. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

9. Fixed assets

(Unaudited)	Aircraft and flight equipment RMB'000	Land use rights RMB'000	Other fixed assets and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2000	21,069,347	499,011	2,077,577	1,159,808	24,805,743
Additions	413,582	-	88,231	289,818	791,631
Disposals	(295,113)	-	(20,086)	-	(315,199)
Transfer from CIP to fixed assets	-	-	51,071	(51,071)	-
At 30 June 2000	21,187,816	499,011	2,196,793	1,398,555	25,282,175
Accumulated depreciation/Provision					
At 1 January 2000	3,897,608	34,205	483,729	218,000	4,633,542
Charge/provision for the period	684,868	5,483	91,727	33,000	815,078
Disposals	(99,071)	-	(19,049)	-	(118,120)
Transfer from CIP to fixed assets	-	-	6,000	(6,000)	-
At 30 June 2000	4,483,405	39,688	562,407	245,000	5,330,500
Net book value at 30 June 2000	**16,704,411**	**459,323**	**1,634,386**	**1,153,555**	**19,951,675**
Net book value at 31 December 1999	17,171,739	464,806	1,593,848	941,808	20,172,201

10. Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2000, the Group had capital commitments as follows:-

	(Unaudited) 30 June 2000 RMB'000	(Audited) 31 December 1999 RMB'000
Authorised and contracted for:		
- Aircraft and related equipment	**12,614,717**	11,466,474
- Other	**469,498**	483,893
	13,084,215	11,950,367
Authorised but not contracted for:		
- Aircraft and related equipment	**487,860**	-
- Other	**136,360**	797,538
	624,220	797,538
	13,708,435	12,747,905

The above commitments include primarily amounts for acquisition of seven Airbus A-320 and seven A-340 aircraft for delivery between 2000 and 2006.

(b) Operating lease commitments

As at 30 June 2000, the Group had commitments under operating leases to make future minimum rentals as follows:-

	(Unaudited) 30 June 2000		(Audited) 31 December 1999	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
Within one year	**814,592**	**57,791**	701,794	62,795
In the second year	**922,296**	**14,199**	838,051	18,761
In the third to fifth year inclusive	**3,665,794**	**23,866**	3,536,859	28,423
After the fifth year	**6,587,378**	**21,774**	7,198,146	25,058
	11,990,060	**117,630**	12,274,850	135,037

(c) Contingent liabilities

As at 30 June 2000, the Group had provided a guarantee to a bank amounting to RMB150,000,000 in respect of bank facilities granted to Nanging Lu Kou International Airport Company ("Lu Kou International Airport"), a third party. In addition, the Group had provided a guarantee to Citic Securities Co. Ltd. amounting to RMB160,000,000 in respect of a 3-year corporate debenture issued by Jiangsu Aviation Property Group Co. Ltd., the holding company of Lu Kou International Airport.

11. Convenient translation

The unaudited consolidated profit and loss account and net assets have been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into United States dollars ("US$") solely for the convenience have been made at the rate of US$1.00 to RMB8.2780 being the average of the buying and selling rates as quoted by People's Bank of China at the close of business on 30 June 2000. No representation is made that RMB amounts could have been or could be converted into US$ at that rate or at any other rate on 30 June 2000 or any other date.

B. Prepared in accordance with the PRC Accounting Regulations

Consolidated Balance Sheet

(Amounts in thousands unless otherwise stated)

	(Unaudited) 30 June 2000 RMB	(Audited) 31 Dec 1999 RMB
Assets		
Total Current Assets	**7,121,123**	7,316,340
Net Long-term Investments	**714,389**	724,687
Total Fixed Assets	**17,675,099**	18,112,088
Total Intangible Assets & Other Assets	**763,110**	806,632
Total Assets	**26,273,721**	26,959,747
Liabilities & Shareholders' Equity		
Total Current Liabilities	**5,551,205**	5,548,196
Total Long-term Liabilities	**13,657,743**	14,469,824
Total Liabilities	**19,208,948**	20,018,020
Minority Interests	**310,064**	259,179
Total Shareholders' Equity	**6,754,709**	6,682,548
Total Liabilities & Shareholders' Equity	**26,273,721**	26,959,747

Consolidated Profit and Loss Account
(Amounts in thousands unless otherwise stated)

Items		(Unaudited) For the six months ended 30 June 2000 RMB	1999 RMB
I.	**Revenue from Main Operations:**	**5,598,045**	4,852,437
	Less: Revenue from Civil Air Infrastructure Construction Fund	**171,966**	153,549
	Revenue from Main Operations, net	**5,426,079**	4,698,888
	Less: Operating Cost	**4,301,069**	3,915,100
	Business Taxes and Surtaxes	**136,721**	119,463
II.	**Profit from Main Operations**	**988,289**	664,325
	Add: Income from Other Operations	**207,351**	133,997
	Less: Allowance for Reduction of Inventory to Market	**5,524**	20,369
	Operating Expenses	**624,371**	428,934
	General & Administrative Expenses	**211,151**	178,712
	Financial Expenses	**398,171**	415,557
III.	**Profit from Operations**	**(43,577)**	(245,250)
	Add: Income from Investments	**27,756**	27,754
	Subsidy Income	**210**	7,600
	Non-operating Income	**142,383**	288,358
	Less: Non-operating Expenses	**8,910**	24,142
IV.	**Total Profit**	**117,862**	54,320
	Less: Income Tax	**16,306**	–
	Minority Interest (for consolidated statements)	**30,652**	1,251
V.	**Net Profit**	**70,904**	53,069

Notes (Principal Accounting Policies, Accounting Estimations and Consolidation of Financial Statements):

1. **Accounting Policies Applied**
   The company and its subsidiaries follow the <Accounting Standards for Business Enterprises> and <Accounting Standards for Stock Companies>.

2. **Accounting Period**
   The Company adopts the Gregorian Calendar year as its accounting period, i.e., from 1 January to 31 December.

3. **Bookkeeping Currency**
   The Company and its subsidiaries adopt Renminbi ("RMB"), the statuary currency of the PRC, as the bookkeeping currency.

4. **Principle and Basis of Accounting**
   The Company adopts the accrual basis, double-entry system and historical cost as basis of accounting.

5. **Translation of Foreign Currencies**
   The Company maintains its books and records in RMB.

   Transactions in foreign currencies are translated into RMB at the market medium exchange rate prevailing on the first day of the month in which the transactions take place. Monetary assets and liabilities in foreign currencies are translated into RMB at the market medium exchange rates prevailing at the last day of each quarter. Exchange differences arising are included in the <Financial Expenses- Exchange Gains and Losses> in the current period.

6. **Definition of Cash Equivalents**
   Cash equivalents refer to those assets having the features of short term, high liquidity, low risks of fluctuation in value and easy convertibility into a given amount of cash.

7. **Accounting of Provision for Bad Debts**
   (1) Determination of bad debts
      a. When the debtor is bankrupted or dead, the accounts are yet unable to be recovered after the liquidation with the debtor's bankrupt estate or legacy.

      b. With an aging over 3 years, the accounts are unable to be collected as the debtor's default in making repayment.

   (2) Accounting treatment
      When the receivable items meet the criteria set forth in the paragraph (1), they can be written off after proper approval procedures.

   (3) Determination, provisioning method and percentage of provision for bad debts
      The Company adopts allowance method to account for provision for bad debts. The Company makes provision for bad debts against receivable items, including <Accounts

Receivable> and <Other Receivable>, under aging method together with consideration of the actual situation of the debtor at the middle and end of the period. The aging and the corresponding provisioning percentages are listed as follows:

Aging	Provisioning Percentage
Within 1 Year	3‰
In the Second Year	5%
In the Third Year	10%
In the Fourth Year	15%
In the Fifth Year	20%
After 5 Years	40%

8. Accounting of Inventory

a. Classification of Inventory
The Company's inventory comprises mainly aircraft consumables, rotables, common appliances, supplies on aircraft and low-price consumables.

b. Valuation of Inventory
The inventory is recorded at planned price, adjusted to its actual cost through the account of <Material Cost Variance> at the end of each month. The amortization of rotables is made over 5 years starting from the next month after acquisition. Upon the completion of its amortization, in the case that rotables, which can still be used after repair, will be recorded at 40% of its market price and be re-amortized over the next 5 years.

c. Allowance for Obsolescence of Inventory
Commencing the year of 1998, the Company has provided allowance against aircraft consumables on the basis of the average useful period of the corresponding airplane types and the average discount rate in previous disposal.

9. Current Investment

(1) The current investment is recorded at the total price paid on acquisition, including incidental expenses such as taxes and handling charges, after deduction of cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds which has been accrued. Cash dividends or interest on current investments other than those recorded as receivable items, should be 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 should be recognized as an investment gain or loss in the current period.

(2) Provision for loss on current investment
At the middle and end of the period, the Company should adjust the carrying amount of current amount to the lower of the cost and market value, and make provision at the excess of carrying amount over the market value on an individual item basis.

10. Long-term Investment

(1) Long-term equity investment
Long-term equity investment consists of securities investment and other equity investment. It is recorded at the acquisition cost actually paid or at the price appraised

or determined by relevant contract. The equity method is applied wherever the Company has 20% or more voting capital of the investee entities, or has less than 20% of the voting capital but has significant influence over the investee entities. The cost method is applied wherever the Company's investment is less than 20% of the voting capital of the investee entities, or the investment is 20% or more but the Company does not have significant influence.

(2) Long-term debt investment
Long-term debt investment refers to investment in bonds and lease. It is recorded at acquisition cost and the investment gain or loss is recognized on the accrual basis.

(3) Equity investment difference
The shortfall of investment cost over the investor's share of owner's equity of the investee enterprise as explained in paragraph (1), is generally amortized over a period of 10 years.

(4) Provision for loss on long-term investment
If the recoverable amount of a long-term investment is lower than its carrying amount as a result of deterioration in operating conditions of the investee enterprise, and the devaluation is unrecoverable in the foreseeable future, the Company should record the difference between the recoverable amount and the carrying amount as provision for loss on long-term investment at the middle and end of the period.

11. Fixed Assets and Depreciation

Fixed asset refers to those assets whose useful lives are more than 1 year, value more than RMB 2,000 and can be held physically to directly realize its benefits during the course of use. Fixed assets are accounted for at acquisition cost. After deducting 3% of the cost as residual value, depreciation is provided on a straight-line basis according to the useful lives as follows:

Aircraft	10-15 years
Engines	10-15 years
Buildings and Premise	15-35 years
Motor Vehicles and Electronic Device	5-6 years
Other Equipment	5-20 years

12. Construction-in-Progress

All facilities purchased and installed, self-made or subcontracted are accounted for in the account of <Construction-in-Progress>.

Construction-in-Progress is recorded at acquisition cost, including cost of facilities, installation expenses and the interest capitalized during the course of construction for the purpose of financing the project.

Upon the completion and readiness for use of the project, the cost of construction-in-progress is to be transferred to the account of <Fixed Assets>.

13. Valuation and Amortization of Intangible Assets

Intangible assets are recorded at the actual acquisition cost and are amortized over its expected beneficial period under straight-line method.

14. Amortization of Organization Expenses and Long-term Deferred Expenses

(1) Organization expenses are amortized over 5 years.

(2) Long-term deferred expenses are amortized over the estimated beneficial years under straight-line method.

15. Overhaul of Aircraft and Engines

Pursuant to the related regulations stipulated by the Finance Dept. of Civil Aviation Administration of China ("CAAC"), while arranging overhaul of aircraft and engines, the Company should make provisions at 2%~4% of the original value in consideration of the overhaul cycle and expected cost of various types of aircraft.

16. Income Recognition

The Company's income from provision of transportation service of passengers, cargo and mails is recognized upon delivery of the service. Air-tickets sold in advance but not executed are listed as current liabilities, which are accounted for in the account of <Domestic Sales in Advance of Carriage> and <International Sales in Advance of Carriage>. Those tickets sold by or executed by other than the Company are to be cleared through China Civil Aviation Settlement Center. <Transportation Income> is recorded with the uplifted coupons as evidence.

Commission income is to be recognized upon billing by other airline companies.

Ground service income is recognized when rendering services.

17. Income Tax

The income tax is accounted for using tax payable method.

18. Basis of Consolidated Statements

(1) Consolidated scope

The Company prepares its financial statements in compliance with the <Provisional Regulations for the Consolidation of Financial Statements> issued by the Ministry of Finance, its Ref. No. CKZ (1995) 11. Wherever the equity investment made by the Company to the outside enterprise is over 50% of the invested enterprise's capital, or less than 50% but the Company has the real control, the investee entities should be included in the consolidation. However, those investee entities that have been established within a year, or have not formally commenced operations, or those have total assets, operating revenue and net profit all under 10% of the Company's total are exempted from consolidation.

(2) Consolidation method

The consolidated financial statements are prepared on the basis of the financial statements of the Company and its subsidiaries within the consolidation scope and other relevant information. The equity investment and the corresponding portion of the owner's equity of the investee, the claims and liabilities, as well as the internal sales between or among them are to be offset when preparing the consolidated statements.

C. Significant Differences between IAS and PRC Accounting Regulations

Differences between IAS and PRC Accounting Regulations, which have significant effects on the unaudited consolidated profit attributable to shareholders and the unaudited consolidated net assets are summarised below:-

Consolidated profit attributable to shareholders
(All amounts in thousands unless otherwise stated)

	For the six months ended 30 June	
		As restated
	2000	1999
	RMB	RMB
As stated in accordance with PRC statutory accounts	**70,904**	53,069
Impact of IAS and other adjustments:		
Allowance for obsolescence of flight equipment spare parts	**(9,747)**	(8,617)
Difference in depreciation charges of flight equipment due to different useful lives	**32,444**	39,556
Difference in gain/(loss) on disposal and depreciation charges of aircraft due to different useful lives	**225,090**	78,010
Provision for overhaul expenses	**(35,795)**	28,655
Reversal of additional charges of flight equipment spare parts arising from revaluation surplus of such assets	**5,396**	11,804
Accrual of net interest income on subleases	**(2,881)**	12,973
Provision for post-retirement benefits	**(53,270)**	(50,434)
Provision for sale of staff quarters	**(33,000)**	(30,000)
Amortisation of goodwill	**(2,828)**	-
Other	**72,854**	8,399
Tax adjustments	**(65,490)**	(46,444)
As stated in accordance with IAS	**203,677**	96,971

Consolidated net assets
(All amounts in thousands unless otherwise stated)

	30 June 2000 RMB	As restated 31 December 1999 RMB
As stated in accordance with PRC audited statutory accounts	**6,754,709**	6,682,548
Impact of IAS and other adjustments:		
Allowance for obsolescence of flight equipment spare parts	**(49,211)**	(39,464)
Difference in depreciation charges of flight equipment due to different useful lives	**399,260**	366,816
Difference in gain/(loss) on disposal and depreciation charges of aircraft due to different useful lives	**1,377,739**	1,152,649
Provision for overhaul expenses	**(487,114)**	(451,319)
Reversal of additional charges of flight equipment spare parts arising from revaluation surplus of such assets	**(75,456)**	(80,852)
Accrual of net interest income on subleases	**(2,641)**	240
Provision for post-retirement benefits	**(481,296)**	(428,026)
Disposition charge of Fokkers flight equipment	**(38,750)**	(38,750)
Provision for sale of staff quarters	**(316,000)**	(283,000)
Goodwill	**104,622**	107,450
Other	**162,471**	90,874
Tax adjustments	**(131,161)**	(65,671)
As stated in accordance with IAS	**7,217,172**	7,013,495

D. Significant Differences between IAS and U.S. GAAP

Differences between IAS and U.S. GAAP, which have significant effects on the unaudited consolidated profit attributable to shareholders and the unaudited consolidated net assets are summarised below:-

Consolidated profit attributable to shareholders
(All amounts in thousands unless otherwise stated)

	Note	For the six months ended 30 June 2000 RMB	As restated 1999 RMB	2000 US$
As stated under IAS		**203,677**	96,971	**24,605**
U.S. GAAP adjustments:				
Reversal of additional depreciation charges arising from the revaluation surplus of fixed assets		**77,376**	81,320	**9,347**
Reversal of amortisation charge on land use rights		**4,210**	4,210	**509**
Reversal of amortisation charge on goodwill		**2,828**	-	**342**
Gain/(loss) on disposal of aircraft and related assets and accelerated depreciation		**34,183**	33,649	**4,129**
Change in accounting policy for aircraft overhaul expenses	(a)	**652,981**	(48,792)	**78,881**
Sales and leaseback of aircraft		**(66,111)**	-	**(7,986)**
Post-retirement benefits		**21,233**	17,560	**2,565**
Deferred tax effect on U.S. GAAP adjustments		**(239,811)**	(29,023)	**(28,970)**
Consolidated profit attributable to shareholders under U.S. GAAP		**690,566**	155,895	**83,422**
Earnings per share under U.S. GAAP	(b)	**RMB0.14**	RMB0.03	**US$0.017**
Earnings per American Depository Share (ADS) under U.S. GAAP	(b)	**RMB14.19**	RMB3.20	**US$1.7141**

Consolidated net assets
(All amounts in thousands unless otherwise stated)

	Note	30 June 2000 RMB	As restated 31 December 1999 RMB	30 June 2000 US$
As stated under IAS		**7,217,172**	7,013,495	**871,850**
U.S. GAAP adjustments:				
Reversal of revaluation surplus of fixed assets		**(977,240)**	(977,240)	**(118,053)**
Reversal of land use rights at valuation		**(420,999)**	(420,999)	**(50,858)**
Goodwill written off to equity		**(113,105)**	(113,105)	**(13,663)**
Reversal of difference in depreciation charges and accelerated depreciation and gain/(loss) on disposal arising from revaluation surplus of fixed assets		**500,944**	389,385	**60,515**
Change in accounting policy for aircraft overhaul expenses	(a)	**-**	(652,981)	**-**
Sales and leaseback of aircraft		**(95,433)**	(29,322)	**(11,529)**
Reversal of amortisation charge on land use rights		**33,680**	29,470	**4,069**
Reversal of amortisation charge on goodwill		**8,483**	5,655	**1,025**
Post-retirement benefits		**164,168**	142,935	**19,832**
Deferred tax effect on U.S. GAAP adjustments		**296,836**	536,647	**35,858**
Consolidated net assets under U.S. GAAP		**6,614,506**	5,923,940	**799,046**

Note:-

(a) Change in accounting policy for aircraft overhaul expenses

During the period, the Group changed its accounting policy with respect to the recognition of major overhaul expenses, see Section A Note 2 for details. Such change was reflected in the financial statements prepared under IAS on a retrospective basis with restatement of the relevant balances for 1999.

Under U.S. GAAP, a change in accounting policy is recognised by including the cumulative effect, based on a retrospective computation, in the operating results in the period of change.

(b) Effect of change in accounting policy on earnings per share

As a result of the adoption of IAS 37, the cumulative effect of the change in accounting policy on the earnings per share and the earnings per American Depository Share of the company for the 6 months ended 30th June 2000 is an increase of the per share amount by RMB0.88 (US$0.11) and RMB8.8 (US$1.1) respectively.

Selected Airline Operating Data

	For the six months ended June 30	
	2000	1999
Capacity		
ASK (available seat-kilometers) (millions)	**11,142.85**	11,051.90
ATK (available tonne-kilometers) (millions)	**1,737.98**	1,599.90
Traffic		
Total tonne-kilometers (millions)	**981.07**	811.20
Passenger tonne-kilometers (millions)	**581.74**	534.20
Cargo tonne-kilometers (millions)	**399.33**	277.00
Passenger-kilometer (millions)	**6,660.03**	6,111.00
Hours flown (thousands)	**86.03**	85.16
Number of passengers carried (thousands)	**4,307.93**	4,039.40
Weight of cargo carried (kg) (millions)	**128.48**	108.60
Load Factor (%)		
Overall load factor	**56.45**	50.70
Passenger load factor	**59.77**	55.30
Break-even load factor (based on ATK)	**52.87**	48.70
Yield and Costs (RMB)		
Passenger yield (passenger revenues/passenger kilometers)	**0.62**	0.61
Cargo yield (cargo revenues/cargo tonne-kilometers)	**2.48**	2.72
Average yield (passenger and cargo revenues/tonne-kilometers)	**5.25**	5.56
Unit cost (operating expenses/ASK)	**0.43**	0.39
Unit cost (operating expenses/ATK)	**2.78**	2.71

Review of Operations

During the first half of 2000, the trends of development in the global economy were positive, the economy of the Asian region continued to recover, the Chinese economy continued to maintain good growth prospects and the macroeconomic environment in China further improved. Additionally, the domestic and international air traffic markets were also in a growth trend. The Group actively took a series of measures in response to aviation market demands, including promptly adjusting its air route structure and flight frequency. In accordance with market changes, the Group suspended the Shanghai to San Francisco route and increased the number of flights on routes to South Korea and Hong Kong and other Southeast Asian countries. The Group made flexible adjustments to its sales strategy by implementing the joint operation of 52 domestic routes, thereby increasing the Company's revenues. The Group actively developed business cooperation opportunities with foreign and domestic airlines to attract a stable passenger base. In response to the strong development prospects in the cargo market, the Group increased its cargo carrying capacity, put into operation the MD11 cargo aircraft whose refitting was completed in December last year, and opened new cargo routes to Japan and Los Angeles from Shanghai. As of 30 June 2000, the Group operated a total of 184 routes of which 156 were domestic routes (including 13 routes to Hong Kong) and 28 were international routes (including 10 international cargo routes). The Group operated over 1,700 scheduled flights per week serving 67 foreign and domestic cities. During the first half of 2000, the Group sold three MD82 aircraft, leasing back two of them, and took out wet leases on two ATR-72 to launch feeder routes. At present, the Group has 68 aircraft, including 52 passenger jet aircraft with a capacity of over 100 seats and 2 jet freighters.

As of 30 June 2000, traffic volume of the Group totalled 981 million tonne-kilometers, an increase of 20.96% over the same period last year, while total revenues amounted to RMB5.343 billion, an increase of 13.32% over the same period last year. The average aircraft daily utilization was 8 hours, an increase of 0.6 hours over the same period last year. The total passenger traffic volume was 6.660 billion passenger-kilometers, an increase of 8.98% over the same period last year, while total passenger revenues amounted to RMB4.161 billion, an increase of 10.74% over the same period last year.

Domestic passenger traffic volume reached 2.786 billion passenger-kilometers, an increase of 6.87% over the same period last year. Domestic passenger revenues were RMB1.937 billion, an increase of 3.59% over the same period last year, accounting for 46.55% of the Group's total passenger revenues.

Passenger traffic volume on Hong Kong routes amounted to 922 million passenger-kilometers, an increase of 5.13% over the same period last year. Hong Kong passenger revenues were RMB906 million, an increase of 7.32% over the same period of last year, accounting for 21.79% of the Group's total passenger revenues.

International passenger traffic volume reached 2.951 billion passenger-kilometers, an increase of 12.33% over the same period last year. International passenger revenues were RMB1.318 billion, an increase of 26.34% over the same period last year, accounting for 31.66% of the Group's passenger revenues.

The Group's cargo traffic volume was 399 million tonne-kilometers, an increase of 44.04% over the same period last year, while cargo revenues were RMB989 million, an increase of 31.17% over the same period last year. The increase in cargo traffic volume was primarily due to the opening of new cargo routes and the increased capacity.

The Group's total operating costs reached RMB4.824 billion, an increase of 12.59% over the same period last year. The increase in operating costs was primarily due to the continuing increase in the price of aviation fuel since April 1999 and the increased lease payments as a result of the addition of four Airbus A320 aircraft and the leaseback of three MD82 aircraft in the second half of 1999. The Group's increased operations at Shanghai Pudong's new airport also contributed to the increase of operating expenses, including increased depreciation on terrestrial fixed assets.

The Group's foreign currency exchange gain was approximately RMB30.86 million for the six months ended 30 June 2000, attributable primarily to the depreciation of the Japanese yen.

As a result of the above, the Group's net profit under IAS was approximately RMB204 million for the six months ended 30 June 2000.

Outlook for the Second Half of 2000

The Company would like to caution readers that this interim report for the six months ended 30 June 2000 contains certain forward-looking statements, including without limitation the statements on the Company's work plan for the second half of 2000 and certain forward-looking statements on the Asian and Chinese economies and aviation markets. These forward-looking statements are subject to significant uncertainties and risks and actual results may differ materially from those indicated in the forward looking statements,

The Company believes that during the second half of 2000, the Asian economy will continue to grow, primarily due to the influence of the favorable international economic environment resulting from the growth in the American and European economies. With China on the verge of acceding to the World Trade Organisation ("WTO"), the Chinese economy will become further globalized and demand in the domestic and international air traffic is expected to continue to grow. The CAAC has stated that it will continue to strengthen its control over certain macro aspects of the Chinese aviation market. The CAAC has indicated that it will:

- strengthen its administration over routes and flights;
- optimize the distribution of routes and duly plan the route network;
- actively develop feeder routes to open the feeder route air traffic market;
- further rectify the sales agent market;
- solidify and develop the benefits gained from the joint operation of routes;
- regulate the market, stabilize ticket prices for domestic routes and promote ticket price reform for domestic routes; and
- duly carry out strategic adjustments and reorganizations of civil air carriers.

The Company believes that its operating environment will improve as a consequence of the CAAC's stated policies and the Chinese government's adoption of measures to increase domestic demand and regulate the travel market. Furthermore, as certain countries are expected to grant Chinese citizens access to more of their tourist spots during the second half of 2000, and with the coming of traditional holidays and festivals and the approach of the traffic peak, the Company's total traffic volume is expected to increase, resulting in an increase in the Company's operating revenues.

In light of the Company's current market environment, the Company will take the following steps in the second half of the year:

1. **Rationalize the allocation of capacity and timely adjust its route structure**
   The Company plans to dispose of its one remaining MD82 aircraft and add four Airbus A320 aircraft under financial lease and four Airbus A319 aircraft under operating lease. The Company has completed the refitting of one of its MD11 passenger aircraft as its third cargo aircraft in August 2000. The

Company intends to rationally allocate capacity and optimize the structure of its route network according to the market demand. The Company will also strengthen control over its flights and timely reduce or suspend flights with low passenger load factors.

2. **Increase marketing efforts**

   The Company will continue to strengthen its sales efforts in the Chinese domestic market and Japan, South Korea and Hong Kong, enhance its competitiveness on international long haul routes, fully use code sharing and increase marketing efforts to attract first class and business class passengers and increase its share of the holiday traveler market. The Company also plans to develop an effective sales agent management system to motivate sales agents.

3. **Actively promote the Company's frequent flyer program to form a relatively stable passenger base**

   The Company's frequent flyer program covers all of the Company's routes. As of 30 June 2000, the members of the Company's Golden Swallow Club increased by 87% compared to its membership at the end of 1999. The Company will cooperate with other airlines and related industries to further develop this business and, in this effort, is currently discussing plans with relevant banks and internet companies. The Company will further simplify application procedures, including developing on-line applications, in order to maximize the convenience to membership applicants.

4. **Strengthen the research and development of e-commerce and improve the on-line ticket reservation and payment system**

   Since October 1999, when the Company became the first civil airline in China to develop and use an integrated on-line ticket reservation and payment system, it has recruited more than 11,000 on-line members. The Company's objective is to establish a comprehensive airline web site which combines services such as on-line seat reservation, on-line car reservation, on-line room reservation and self-service travel.

5. **Actively develop cargo operations and develop the air cargo market**

   The Group's second refitted MD11 cargo aircraft commenced operation in August 2000. At present, the Group has three MD11 all-cargo aircraft and will increase investment in its cargo transport capacity according to the demand in the cargo transport market. The Group has plans to increase its flight frequency on cargo routes to Europe and North America and will devote major efforts to develop cargo markets outside Shanghai.

6. **Take strong measures to contain increases in costs**

   Uncontrollable factors such as increases in the price of aviation fuel, operations at two airports in one city and increased financial expenses for new aircraft have caused a rise in the Company's operating costs. The Company plans to take strong measures to strictly contain variable costs and limit cost increases. The measures include, without limitation, strengthening its investment planning management and gradually establishing an investment planning management computer system to enhance investment efficiency; strengthening its foreign exchange debt management and reducing foreign exchange risk and debt costs through debt restructuring; and, through a reorganization, strengthening the unified management and utilization of resources.

7. **Actively participate in strategic adjustments and reorganization and seek suitable cooperation partners**
In order to further restructure and optimize the Chinese civil aviation industry, the CAAC intends to create three large carriers which include the Company. Guided by the CAAC's new policy, the Company plans to participate in the restructuring of the Chinese civil aviation industry and formulate schemes and plans to further the Company's long-term development. The Company will also seek suitable cooperation partners.

Share Capital

1. **Change in share capital**
As of 30 June 2000, there was no change in the Company's share capital.

2. **Share capital structure**

	Number of Shares	Percentage (%)
A shares		
Unlisted state-owned legal person shares	3,000,000,000	61.64
Listed shares	300,000,000	6.16
H shares	1,566,950,000	32.20
Total number of shares	4,866,950,000	100.00

3. **Substantial shareholders**
As of 30 June 2000, the following shareholders held more than 10% of the issued shares of the Company:

	Name shares held	Percentage of Number of shareholding (%)
Eastern Air Group Company	3,000,000,000	61.64
HKSCC (Nominees) Limited	1,447,527,999	29.74

4. **Directors, supervisors and senior management share holding statement**

Name	Position	Number of A Shares Held
Li Zhongming	Chairman of the Board of Directors	2,800
Zhu Tonghai	Director	2,800
Shen Zejiang	Director, President	2,800
Xiao Liyuan	Director, Vice President	2,800
Zhong Xiong	Director, Vice President	2,800
Chen Quanxin	Director	2,800
Wu Baiwang	Director	0
Zhou Ruijin	Director	0
Gong Haocheng	Independent Non-executive Director	0
Hu Honggao	Independent Non-executive Director	0
Peter Lok	Independent Non-executive Director	0
Li Wenxin	Chairman of the Supervisory Committee	0
Ba Shengji	Supervisor	2,800
Zhou Rongcai	Supervisor	0
Feng Lei	Supervisor	2,800
Liu Jiashun	Supervisor	0
Wu Yulin	Vice President	2,800
Fan Ru	Chief Pilot	2,800
Yang Xu	Chief Engineer	0
Luo Zhuping	Company Secretary	2,800

Except as disclosed above, none of the Directors, Supervisors or any member of senior management of the Company had a beneficial interest in the issued share capital of the Company as at 30 June 2000.

Material Matters

1. **Dividends**
The Board of Directors does not recommend any payment of interim dividends for the six months ended 30 June 2000.

2. **Influence of recent economic developments**
The Company believes that during the second half of 2000, the Asian economy will continue to grow, due to the influence of the favorable international economic environment resulting from the growth in the American and European economies. With China on the verge of acceding to the WTO, the Chinese economy will become further globalized and demand in the domestic and foreign air traffic markets is expected continue to grow.

3. **Acquisition and Merger**
On 24 August 2000, to increase the Company's market share in the Chinese domestic passenger traffic market, the Board of Directors passed resolutions to acquire a 55% interest in Air Great Wall which is based in Ningbo, Zhejiang province. Air Great Wall is directly controlled and administered by the CAAC and operates over 30 domestic routes serving over 20 large and medium cities in China.

4. **Staff quarters**
Except as disclosed in the Group's 1999 Annual Report, the Group did not own, purchase or sell any staff quarters during six months ended 30 June 2000.

5. **Purchase, Sale or Redemption of Listed Shares**
There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the first half of 2000.

6. **Compliance with Code of Best Practice**
The Company complied with "The Code of Best Practice" set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the first half of 2000.

7. **Material Litigation and Arbitration**
The Group was not involved in any material litigation or arbitration in the first half of 2000.

8. **Others**
The Group has no designated deposits as of 30 June 2000 nor has it experienced any failures to collect fixed deposits upon maturity.

The Company has at all times paid the full amount of income tax in accordance with the relevant tax regulations of the PRC and has never enjoyed the preferential 18% income tax refund from the government. Therefore, neither the unified income tax rate nor the cancellation of the preferential tax refund by the Chinese government has had any significant impact on the Company.

The Company has never been subject to the "levy first and refund later" tax policies formulated by local governments themselves; therefore, the cancellation of such policies by the Chinese government has not had any impact on the Company.

Li Zhongming
Chairman of the Board
China Eastern Airlines Corporation Limited
Shanghai, 24 August 2000

DOCUMENTATION AND ADDRESS FOR REVIEW

Documentation for review: Original copy of the interim report for the six months ended 30 June 2000 and financial report with the signature of the Chairman.

Address for review: Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited, 2550 Hongqiao Road, Shanghai, the People's Republic of China.

Shareholders can obtain a copy of the Company's internet report through the internet address below:
HTTP://WWW.CE-AIR.COM HTTP://WWW.IRASIA.COM HTTP://WWW.FIRSTCALL.COM