



1999

Interim Report



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

Interim Financial Statements

The Board of Directors (“Directors”) of China Eastern Airlines Corporation Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 1999 with comparative figures for the corresponding period in 1998 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 1999

(Amounts in thousands unless otherwise stated)

	Note	(Unaudited) 1999 RMB	# (Unaudited) 1998 RMB	(Unaudited) 1999 US\$	1999 vs 1998 Increase/ (Decrease) %
Traffic revenues					
Passenger		3,757,195	3,045,088	453,844	23.39
Cargo and mail		753,838	582,884	91,059	29.33
Other operating revenues		204,415	180,924	24,692	12.98
Turnover	2	<u>4,715,448</u>	<u>3,808,896</u>	<u>569,595</u>	23.80
Operating expenses					
Wages, salaries and benefits		340,433	243,732	41,122	39.68
Take-off and landing charges		757,009	538,015	91,442	40.70
Aircraft fuel		798,798	723,913	96,489	10.34
Food and beverages		211,670	201,956	25,568	4.81
Aircraft depreciation and operating leases		988,231	797,531	119,372	23.91
Other depreciation and operating leases		94,591	106,955	11,426	(11.56)
Aircraft maintenance		363,570	346,761	43,917	4.85
Commissions		259,796	216,896	31,382	19.78
Office and administration		325,872	241,987	39,363	34.67
Other		192,899	188,545	23,301	2.31
Total operating expenses		<u>4,332,869</u>	<u>3,606,291</u>	<u>523,382</u>	20.15
Operating profit		382,579	202,605	46,213	88.83
Interest expense, net		(464,413)	(420,736)	(56,098)	(10.38)
Gain on disposal of aircraft	4	63,521	-	7,673	-
Other income		109,481	156,227	13,224	(29.92)
Profit/ (loss) before taxation		91,168	(61,904)	11,012	247.27
Taxation	3	(29,192)	16,098	(3,526)	(281.34)
Profit/ (loss) after taxation		61,976	(45,806)	7,486	235.30
Minority interests		2,304	12,570	278	(81.67)
Profit/ (loss) attributable to shareholders		<u>64,280</u>	<u>(33,236)</u>	<u>7,764</u>	293.40
Earnings/ (loss) per share	6	<u>RMB0.013</u>	<u>RMB(0.007)</u>	<u>US\$0.002</u>	

Interim Financial Statements (continued)

- # - In the second half of the financial year 1998, the State Development Planning Committee and the Ministry of Finance of PRC promulgated a reduction of the civil aviation infrastructure levies rates on traffic revenues from 10% to 8% and from 6% to 2% for domestic and international routes respectively with retrospective effect from 1 January 1998. Had such reduction of levies been reflected in the comparative unaudited consolidated profit and loss account, the Group's turnover would have increased by approximately Rmb130,000,000 and the Group's results would have been a profit after tax of approximately Rmb53,000,000 for the six months ended 30 June 1998. (The levy rate for domestic routes was further reduced to 5% commencing 1 January 1999.)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 1999

(Amounts in thousands unless otherwise stated)

		(Unaudited) 30 June	(Audited) 31 December	(Unaudited) 30 June
	Note	1999 RMB	1998 RMB	1999 US\$
Fixed assets and Construction in progress	8	19,567,700	19,665,912	2,363,648
Other non-current assets		3,822,423	4,429,063	461,723
Current assets				
Flight equipment spare parts less allowance for obsolescence		449,301	429,292	54,273
Receivables and prepayments		2,592,939	1,625,237	313,210
Deposits with a related company		308,440	544,870	37,258
Cash and bank balances		786,739	1,296,373	95,033
		4,137,419	3,895,772	499,774
Current liabilities				
Payables and accruals		2,292,817	2,152,723	276,957
Current portion of obligations under finance leases		1,004,136	863,509	121,293
Current portion of long-term loans		549,118	540,725	66,330
Short-term bank loans		1,371,317	964,864	165,646
		5,217,388	4,521,821	630,226
Net current liabilities		(1,079,969)	(626,049)	(130,452)
		22,310,154	23,468,926	2,694,919
Capital and reserves		6,489,650	6,425,370	783,907
Obligations under finance leases		9,686,847	10,837,156	1,170,107
Long-term loans		4,152,461	4,416,442	501,590
Other long term liabilities		1,981,196	1,789,958	239,315
		22,310,154	23,468,926	2,694,919

Interim Financial Statements (continued)

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 1999

(Amounts in thousands unless otherwise stated)

(Unaudited)	Share Capital RMB	Reserves RMB	Retained profits RMB	Total RMB
At 1 January 1999	4,866,950	1,198,177	360,243	6,425,370
Consolidated profit attributable to shareholders	-	-	64,280	64,280
At 30 June 1999	<u>4,866,950</u>	<u>1,198,177</u>	<u>424,523</u>	<u>6,489,650</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 1999

(Amounts in thousands unless otherwise stated)

	(Unaudited) 1999 RMB	(Unaudited) 1999 US\$
Net cash inflow from operating activities	583,637	70,499
Net cash outflow from investing activities	(679,528)	(82,082)
Net cash outflow from financing activities	(612,843)	(74,027)
Net cash outflows	(708,734)	(85,610)
Cash and cash equivalents at 31 December 1998	1,792,824	216,561
Exchange adjustment	(13,287)	(1,605)
Cash and cash equivalents at 30 June 1999	<u>1,070,803</u>	<u>129,346</u>

Analysis of the balances of cash and cash equivalents

	30 June 1999 RMB'000	31 December 1998 RMB'000
Short-term deposits and bank balances	786,739	1,296,373
Deposits with a related company	308,440	544,870
Less: short-term deposits with original maturity over three months	(24,376)	(48,419)
	<u>1,070,803</u>	<u>1,792,824</u>

Notes to the Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The accompanying unaudited consolidated interim financial statements comprise the consolidated financial statements of the Company and all of its subsidiaries as at 30 June 1999 and of the results for the six months ended 30 June 1999. All significant transactions and intercompany balances 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 accounts in the People's Republic of China ("PRC"). The statutory accounts of the Group have been prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). Differences between PRC Accounting Regulations and IAS on unaudited consolidated profit attributable to shareholders for the six months ended 30 June 1999 and on the unaudited consolidated net assets as at 30 June 1999 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 unaudited consolidated profit attributable to shareholders for the six months ended 30 June 1999 and on the unaudited consolidated net assets as at 30 June 1999 are set out in Section D.

The accounting policies used in the preparation of these unaudited consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 1998.

2. 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 by geographical segments are analysed as follows:-

	For the six months ended 30 June (Unaudited)				
	Domestic	Hong Kong	Japan	Other	Total
	RMB'000	RMB'000	RMB'000	countries* RMB'000	RMB'000
1999					
Traffic revenues	2,003,516	939,003	528,823	1,039,691	4,511,033
Other operating revenues	204,415	-	-	-	204,415
Turnover	<u>2,207,931</u>	<u>939,003</u>	<u>528,823</u>	<u>1,039,691</u>	<u>4,715,448</u>
Operating profit/(loss)	<u>154,858</u>	<u>257,648</u>	<u>64,441</u>	<u>(94,368)</u>	<u>382,579</u>

Notes to the Financial Statements (continued)

	For the six months ended 30 June (Unaudited)				Total RMB'000
	Domestic RMB'000	Hong Kong RMB'000	Japan RMB'000	Other countries* RMB'000	
1998					
Traffic revenues	1,557,797	797,402	499,126	773,647	3,627,972
Other operating revenues	180,924	-	-	-	180,924
Turnover	<u>1,738,721</u>	<u>797,402</u>	<u>499,126</u>	<u>773,647</u>	<u>3,808,896</u>
Operating profit/(loss)	<u>13,828</u>	<u>242,817</u>	<u>67,684</u>	<u>(121,724)</u>	<u>202,605</u>

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

3. Taxation

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

	(Unaudited)	
	For the six months ended 30 June 1999 RMB'000	1998 RMB'000
Provision for PRC income tax	-	-
Deferred taxation	<u>29,192</u>	<u>(16,098)</u>
	<u>29,192</u>	<u>(16,098)</u>

The charge for PRC income tax is calculated at the rate of 33% (1998: 33%) on the estimated assessable profits of the period determined in accordance with the relevant PRC income tax rules and regulations. No provision for PRC income tax for the period has been made to the financial statements as the Group has accumulated tax losses carried forward as at 31 December 1998.

- (b) The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the six months ended 30 June 1999 as there exist double tax reliefs between PRC and the corresponding jurisdictions (including 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 or the benefit in respect of tax loss carryforwards are expected to be realised in the foreseeable future.

4. Gain on disposal of aircraft

On 2 April 1999, the Company entered into a sales agreement with an independent third party to dispose of all its thirteen MD-82 aircraft. Five such aircraft have been delivered during the six months ended 30 June 1999 and the Company recognised a total gain of 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.

Notes to the Financial Statements (continued)

5. Interim dividend

The Board of Directors of the Company does not recommend any payment of interim dividends for the six months ended 30 June 1999 (1998: Nil).

6. Earnings/ (loss) per share

The calculation of earnings/ (loss) per share is based on the unaudited consolidated profit attributable to shareholders of RMB64,280,000 (1998: loss of RMB33,236,000) and the weighted average number of 4,866,950,000 shares (1998: 4,866,950,000 shares) in issue during the period.

7. Profit appropriation

No appropriations from retained earnings were made to the statutory reserves during the six months ended 30 June 1999. Such appropriations will be made at the year end in accordance with the PRC regulations and the Company's Articles of Association.

8. 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 1999	20,260,698	499,011	1,288,329	1,063,856	23,111,894
Additions	997,777	-	53,156	263,286	1,314,219
Disposals	(798,080)	-	(14,284)	-	(812,364)
At 30 June 1999	<u>20,460,395</u>	<u>499,011</u>	<u>1,327,201</u>	<u>1,327,142</u>	<u>23,613,749</u>
Accumulated					
depreciation/Provision					
At 1 January 1999	2,807,676	23,533	334,773	280,000	3,445,982
Charge/provision for the period	679,794	5,141	66,551	30,000	781,486
Disposals	(168,653)	-	(12,766)	-	(181,419)
At 30 June 1999	<u>3,318,817</u>	<u>28,674</u>	<u>388,558</u>	<u>310,000</u>	<u>4,046,049</u>
Net book value at 30 June 1999	<u>17,141,578</u>	<u>470,337</u>	<u>938,643</u>	<u>1,017,142</u>	<u>19,567,700</u>
Net book value at 31 December 1998	<u>17,453,022</u>	<u>475,478</u>	<u>953,556</u>	<u>783,856</u>	<u>19,665,912</u>

During the six months ended 30 June 1999, the Group acquired two MD-90 aircraft and disposed of three MD-82 and two Fokker 100 aircraft in accordance with the delivery schedule as stipulated in the relevant acquisitions/disposal agreements. As at 30 June 1999, the Group had a fleet of 73 aircraft, of which 25 aircraft were under finance leases, 15 under operating leases and the remaining 33 were directly owned by the Group.

Notes to the Financial Statements (continued)

9. Commitments

(a) Capital commitments

As at 30 June 1999, the Group had capital commitments as follows:-

	(Unaudited) 30 June 1999 RMB'000	(Audited) 31 December 1998 RMB'000
Authorised and contracted for:		
- Aircraft and related equipment	3,698,315	4,582,045
- Other	426,323	36,400
	<u>4,124,638</u>	<u>4,618,445</u>
Authorised but not contracted for:		
- Aircraft and related equipment	139,810	213,310
- Other	1,682,342	1,699,476
	<u>1,822,152</u>	<u>1,912,786</u>
	<u>5,946,790</u>	<u>6,531,231</u>

The above commitments include primarily amounts for the acquisition of the ten Airbus A-320 aircraft for delivery between 1999 and 2001.

(b) Operating lease commitments

As at 30 June 1999, the Group had commitments under operating leases to make future minimum rentals as follows:-

	(Unaudited) 30 June 1999		(Audited) 31 December 1998	
	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	664,969	20,122	452,480	36,718
In the second year	760,655	12,483	525,877	19,217
In the third to fifth year inclusive	2,715,557	15,373	1,577,630	18,625
After the fifth year	4,636,778	26,272	2,752,093	30,964
	<u>8,777,959</u>	<u>74,250</u>	<u>5,308,080</u>	<u>105,524</u>

10. Convenience 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 of the reader have been made at the rate of US\$1.00 to RMB8.2786 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 1999. 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 1999 or any other date.

Interim Financial Statements

B. Prepared in accordance with the People's Republic of China (the "PRC") Accounting Regulations

Consolidated Balance Sheet

(Amounts in thousands unless otherwise stated)

	(Unaudited) 30 June 1999	(Audited) 31 Dec 98
	RMB	RMB
Assets		
Total Current Assets	7,500,144	7,031,246
Net Long-term Investments	794,156	1,233,967
Total Fixed Assets	17,408,982	18,012,962
Total Intangible Assets & Other Assets	774,955	754,643
Total Assets	<u>26,478,237</u>	<u>27,032,818</u>
Liabilities & Shareholders' Equity		
Total Current Liabilities	5,910,954	5,431,370
Total Long-term Liabilities	13,734,220	14,974,915
Total Liabilities	19,645,174	20,406,285
Minority Interests	246,748	95,497
Total Shareholders' Equity	6,586,315	6,531,036
Total Liabilities & Shareholders' Equity	<u>26,478,237</u>	<u>27,032,818</u>

Consolidated Profit and Loss Account

(Amounts in thousands unless otherwise stated)

	(Unaudited)	
	For the six months ended 30 June	
Items	1999	1998
	RMB	RMB
I. Revenue from Main Operations:	4,852,437	4,206,171
Less: Revenue from Civil Air Infrastructure Construction Fund	153,549	311,510
Revenue from Main Operations, net	<u>4,698,888</u>	3,894,661
Less: Operating Cost	3,915,100	3,333,950
Business Taxes and Surtaxes	119,463	103,401
II. Profit from Main Operations	<u>664,325</u>	457,310
Add: Income from Other Operations	133,997	125,631
Less: Allowance for Reduction of Inventory to Market	20,369	17,328
Operating Expenses	428,934	489,761
General & Administrative Expenses	178,712	132,384
Financial Expenses	415,557	372,064
III. Profit from Operations	<u>(245,250)</u>	(428,596)
Add: Income from Investments	27,754	42,476
Subsidy Income	7,600	-
Non-operating Income	288,358	23,160
Less: Non-operating Expenses	24,142	20,479
IV. Total Profit	<u>54,320</u>	(383,439)
Less: Income Tax	-	-
Minority Interest (for consolidated statements)	1,251	(23,074)
V. Net Profit	<u>53,069</u>	<u>(360,365)</u>

Notes to the Financial Statements

1. Accounting Policies Applied

The company and its subsidiaries follow the <Accounting Regulations for Joint Stock Limited Companies>.

2. Accounting Period

The company adopts the Gregorian Calendar year as its accounting period, i.e., from January 1 to December 31.

3. Bookkeeping Currency

The Company and its subsidiaries adopt RMB 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 at the transaction date. Monetary assets and liabilities in foreign currencies at the end of each quarter are translated into RMB at the market medium exchange rates prevailing at that date. Exchange differences arising are included in the <Financial Expenses- Exchange Gains and Losses> in the current period.

6. Basis of Consolidated Statements

The Company prepares its financial statements in compliance with the regulations stipulated in <Provisional Regulations for the Consolidation of Financial Statements> issued by the Ministry of Finance, its Ref. No. Cai Kuei Zi (1995) 11. Wherever the equity investment made by the Company to the outside enterprise is over 50% of the invested enterprise's capital, upon offsetting and adjustment, consolidated financial statements should be prepared (however, those investees that have been established within a year, or have not commenced operations, or those have total assets, operating revenue and net profit under 10% of Company's total are exempted from consolidation.).

The subsidiary companies consolidated in this period are as follows:

Name of the company	Registered capital	Shareholding	Scope of business
China Eastern Airlines Jiangsu Co. Ltd.	USD 47,000,000	55%	Air transportation of passengers and cargo over domestic and approved overseas routes
China Cargo Airlines Ltd.	RMB 500,000,000	70%	Air transportation of cargo

7. Definition of Cash Equivalents

Cash equivalents refer to those assets which have the features of short term, high liquidity, low risks of fluctuation in value and easily convertible into a given amount of cash.

Notes to the Financial Statements (continued)

8. Provision of Bad Debts against Accounts Receivable

The bad debts on <Accounts Receivable> are treated on provision basis. Provision for bad debts is provided at 3 of the period-ending balance of <Accounts Receivable> and is debited in the account of <General & Administrative Expenses>. When bad debts actually occur, upon completion of necessary approval procedures, they are offset with the provision previously made.

9. 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 standard 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. In case, upon the completion of its amortization, which can still be used after repair, rotables will be recorded at 40% of its market price and will be re-amortized over the next 5 years.

c. Allowance for Write Down of Inventory to Market Value

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

10. Accounting of Long-term Investment

a. Long-term Equity Investment

The Company's long-term equity investment includes securities investment and other equity investments. The long-term equity investment is accounted for at the acquisition price actually paid or at the appraised or negotiated price. Whenever the Company's investments is 20% or more of the voting capital of the invested entities, or the investment is less than 20% but the Company has significant influence on the investees, the equity method is applied. If the Company's investment is less than 20% of the invested entities, or the investment is 20% or more while the Company does not have significant influence on the investees, the cost method is applied to account for the long-term investment.

b. Long-term debenture Investment

Long-term debenture Investment refers to bond investment and lease investment. Long-term bond investment is recorded as acquisition cost and accounted for under the equity method.

Notes to the Financial Statements (continued)

11. Fixed Assets and Depreciation

Fixed assets refer 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. Pricing 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 Prepaid & Deferred Expenses

a. Organization Expenses are amortized over 5 years.

b. Long-term Prepaid & 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 Department of Civil Aviation Authority of China ("CAAC"), while arranging overhaul of aircraft and engines, the Company should provide the expense at 2%~4% of the original value, in consideration of the overhaul period and expected cost of various types of aircraft.

16. Income Recognition

The Company's income from providing 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. Accounting Method of Income Tax

The accounting of income tax is under payable method.

Supplementary Financial Information

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/ (loss) attributable to shareholders and the unaudited consolidated net assets, are summarised below:-

Consolidated profit/ (loss) attributable to shareholders

(All amounts in thousands unless otherwise stated)

	For the six months ended 30 June	
	1999	1998
	RMB	RMB
As stated in accordance with PRC statutory accounts	53,069	(360,365)
Impact of IAS and other adjustments:		
Allowance for obsolescence of flight equipment spare parts	(8,617)	5,412
Difference in depreciation charges of other flight equipment due to different useful lives	39,556	127,569
Difference in gain/ loss on disposal and depreciation charges of aircraft due to different useful lives	78,010	276,520
Provision for overhaul expenses	(20,137)	(140,894)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	11,804	13,410
Accrual of net interest income on subleases	12,973	14,691
Provision for post-retirement benefits	(50,434)	(41,000)
Provision for staff quarters	(30,000)	-
Other	8,399	55,323
Tax adjustments	(30,343)	16,098
As stated in accordance with IAS	<u>64,280</u>	<u>(33,236)</u>

Consolidated net assets

(All amounts in thousands unless otherwise stated)

	30 June	31 December
	1999	1998
	RMB	RMB
As stated in accordance with PRC statutory accounts	6,586,315	6,531,036
Impact of IAS and other adjustments:		
Allowance for obsolescence of flight equipment spare parts	(48,268)	(39,651)
Difference in depreciation charges of other flight equipment due to different useful lives	387,985	348,429
Difference in gain/ loss on disposal and depreciation charges of aircraft due to different useful lives	1,139,602	1,061,592
Provision for overhaul expenses	(1,143,673)	(1,123,536)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(97,097)	(108,901)
Accrual of net interest income on subleases	(11,665)	(24,638)
Provision for post-retirement benefits	(256,333)	(205,899)
Disposition charge of Fokkers	(38,750)	(38,750)
Provision against staff quarters	(283,000)	(253,000)
Other	75,145	68,956
Tax adjustments	179,389	209,732
As stated in accordance with IAS	<u>6,489,650</u>	<u>6,425,370</u>

Supplementary Financial Information (continued)

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/ (loss) attributable to shareholders and the consolidated net assets are summarised below:-

Consolidated profit/ (loss) attributable to shareholders

(All amounts in thousands unless otherwise stated)

	For the six months ended 30 June		
	1999 RMB	1998 RMB	1999 US\$
As stated under IAS	64,280	(33,236)	7,765
U.S. GAAP adjustments:			
Reversal of additional depreciation charges arising from the revaluation surplus of fixed assets	81,320	80,053	9,823
Reversal of amortisation charge on land use rights	4,210	4,210	509
Gain/(loss) on disposal of aircraft and related assets and accelerated depreciation	33,649	(134,317)	4,065
Post-retirement benefits	17,560	18,941	2,121
Deferred tax effect on U.S. GAAP adjustments	(45,124)	10,267	(5,451)
Consolidated profit/ (loss) attributable to shareholders under U.S. GAAP	<u>155,895</u>	<u>(54,082)</u>	<u>18,832</u>
Earnings/ (loss) per share under U.S. GAAP	<u>RMB0.03</u>	<u>RMB(0.01)</u>	<u>US\$0.004</u>
Earnings/ (loss) per American Depository Share ("ADS") under U.S. GAAP	<u>RMB3.20</u>	<u>RMB(1.11)</u>	<u>US\$0.3865</u>

Consolidated net assets

(All amounts in thousands unless otherwise stated)

	30 June 1999 RMB	31 December 1998 RMB	30 June 1999 US\$
As stated under IAS	6,489,650	6,425,370	783,907
U.S. GAAP adjustments:			
Reversal of the revaluation surplus of fixed assets	(977,240)	(977,240)	(118,044)
Reversal of land use rights at valuation	(420,999)	(420,999)	(50,854)
Reversal of difference in depreciation charges and accelerated depreciation and gain/(loss) on disposal of fixed assets arising from the revaluation surplus of fixed assets	279,084	164,115	33,711
Reversal of amortisation charge on land use rights	25,260	21,050	3,051
Post-retirement benefits	118,029	100,469	14,257
Deferred tax effect on U.S. GAAP adjustments	322,035	367,159	38,900
Consolidated net assets under U.S. GAAP	<u>5,835,819</u>	<u>5,679,924</u>	<u>704,928</u>

Selected Airline Operating Data

	For the six months ended 30 June	
	1999	1998
Capacity		
ASK (available seat-kilometers) (millions)	11,051.90	8,904.00
ATK (available tonne-kilometers) (millions)	1,599.90	1,363.80
Traffic		
Total tonne-kilometers (millions)	811.20	670.50
Passenger tonne-kilometers (millions)	534.20	444.20
Cargo tonne-kilometers (millions)	277.00	226.30
Passenger-kilometer (millions)	6,111.00	5,057.70
Hours flown (thousands)	85.16	67.64
Number of passengers carried (thousands)	4,039.40	3,611.70
Weight of cargo carried (kg) (millions)	108.60	76.70
Load Factor (%)		
Overall load factor	50.70	49.20
Passenger load factor	55.30	56.80
Break-even load factor (based on ATK)	48.70	49.40
Yield and Costs (RMB)		
Passenger yield (passenger revenues/passenger-kilometers)	0.61	0.60
Cargo yield (cargo revenues/cargo tonne-kilometers)	2.72	2.58
Average yield (passenger and cargo revenues/tonne-kilometers)	5.56	5.41
Unit cost (operating expenses/ASK)	0.39	0.41
Unit cost (operating expenses/ATK)	2.71	2.66

Board of Directors' Statement

Review of Operations

During the first half of 1999, the Asian economy began to stabilize while adverse factors such as over-capacity, low demand and fierce competition in the Chinese domestic aviation market have not changed significantly. In response, the Group forwardly adopted a series of measures, including reducing capacity and the number of low-yield flights as well as expanding the scope of code sharing and route cooperation with other airlines. In response to the changing market, the Group added a route linking Shanghai with Fukushima, Japan and allocated more capacity on the routes to Korea and Southeast Asia. The Group also opened new cargo routes from Shanghai to Paris and from Shanghai to Xiamen by the way of wet-lease of DC10 and IL76 freighters, and initiated cargo chartered flights from Shanghai to Seoul and Tokyo. As of 30 June 1999, the Group operated a total of 132 routes, including 109 domestic routes (including 12 routes between mainland China and Hong Kong and one domestic cargo route) and 23 international routes (including 3 cargo routes). As of 30 June 1999, the Group operated over 1700 scheduled flights per week serving 68 domestic and international cities. During the first half of 1999, the Group sold five MD82 aircraft, replaced two Fokker100 aircraft by two A320 aircraft under operating leases, purchased two MD90 aircraft and incorporated three B737 aircraft and two YK42 aircraft as a result of the Company having assumed control over the aviation business of China General Aviation Company (see Material Matters). As of 30 June 1999, the Group operated a fleet of 73 aircraft, including 55 passenger jet aircraft with a capacity of over 100 seats each and one jet freighter.

As of 30 June 1999, traffic volume of the Group totalled 811 million tonne-kilometers, an increase of 20.86% over the same period last year. Total revenues amounted to RMB4.715 billion, an increase of 23.80% over the same period last year. The average aircraft daily utilization remained at the same level as the same period last year at 7.4 hours. The volume of passenger traffic grew 20.82% to 6.111 billion passenger-kilometers while passenger revenues were RMB3,757 billion, an increase of 23.39% over the same period last year. The increase of passenger traffic volume was mainly due to the Group's entry into and development of the North China market.

Domestic passenger traffic volume reached 2.607 billion passenger-kilometers, an increase of 10.37% from the same period last year. Revenues generated by domestic passenger traffic were RMB1.870 billion, an increase of 28.15% compared with the same period last year, representing 49.78% of total passenger revenues.

The Group's passenger traffic volume on Hong Kong routes was 877 million passenger-kilometers, an increase of 34.51% compared with the same period last year. Hong Kong passenger revenues were RMB845 million, up 15.28% from the same period last year, accounting for 22.49% of total passenger revenues.

International passenger traffic volume amounted to 2.627 billion passenger-kilometers, an increase of 28.52% compared with the same period last year. International passenger revenues increased by 22.16% over the same period last year to RMB 1.042 billion, representing 27.73% of total passenger revenues.

The Group's cargo traffic volume was 277 million tonne-kilometers, up 22.57% over the same period last year. Cargo revenues amounted to RMB754 million, an increase of 29.33% compared with the same period last year. The increase of cargo traffic was primarily due to the opening of new cargo routes and the increase of traffic capacity.

During the first half of 1999, the Group's operating costs reached RMB4.333 billion, an increase of 20.15% compared with the same period last year. Such increase was primarily due to increases in depreciation charges and overhaul expenses resulting from an expansion of the Group's fleet in the second half of 1998 and the first half of 1999.

Board of Directors' Statement (continued)

The Group's foreign currency exchange gain was approximately RMB64.58 million in the first half of 1999, which was attributable primarily to the depreciation of Japanese Yen.

As a result of the above, the Group's net profit under IAS was approximately RMB64.28 million in the first half of 1999.

Outlook for the second half of 1999

The Company believes that, in the second half of 1999, the adverse impact of the Asian financial crisis will decrease as the economies in this region gradually improve. However, the demand in the Chinese domestic aviation market will remain weak. The CAAC has stated that it will continue to strengthen and improve its macro-control, including containing the expansion of traffic capacity and standardizing the air fares and sales agents.

The Company believes that its operating environment will improve as the CAAC's macro-control and other measures adopted by the central government are expected to stimulate domestic traffic demand. In addition, the upcoming international economic and trade events to be held in Shanghai and other activities such as the celebration of the 50th anniversary of foundation of the People's Republic of China and the return of Macau in the second half of 1999 will also contribute to the improvement of the Company's operating environment.

In light of the Company's current operating environment, the management of the Company intends to adopt the following measures in the second half of 1999:

- 1) Rationalize the capacity allocation and optimize the route network. The Company will continue to control the expansion of its traffic capacity and will gradually dispose of its MD82 aircraft. The Company will restructure its routes and capacity according to the market condition through reallocating aircraft from the low-yield routes to high-yield routes.
- 2) Adopt flexible marketing approach to increase sales. The Company plans to increase its market share by strengthening promotion and improving its service quality. The Company plans to cooperate with other air carriers on the jointly operated routes to increase the load factor and yield. The Company plans to increase its own marketing ability by raising the marketing awareness of its employees. The Company plans to use the ARC neutral reservation system in the United States to boost and improve the Company's sales and service network.
- 3) Develop and improve its frequent flyer program ("FFP"). The FFP was introduced in July 1998, which covers all of the Company's routes. The Company will continue to allocate more resources in software and hardware of its FFP and further simplify various procedures to facilitate the FFP membership candidates.
- 4) Actively explore the air cargo market. The Company intends to gradually convert its MD11 passenger aircraft into cargo freighter, aiming at increasing its cargo traffic capacity and volume as well as profit from cargo operation.
- 5) Control operating costs and increase efficiency. The Company plans to speed up the inventory of its spare parts stock, increase the utilization efficiency of its working capital and improve the quantity management of its fuel, spare parts and inflight supplies. The Company will further enhance its maintenance ability on the basis of completing the maiden overhaul of its A300-600R aircraft and reduce the operating costs.

Board of Directors' Statement (continued)

The Company wishes to caution readers that this interim report contains certain forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Actual events or results may differ materially from the information contained in the forward-looking statements. Such forward-looking statements include, without limitation, statements relating to Year 2000 issue, the Asian economy, the aviation market in Asia and the measures to be adopted by the Company in the second half of 1999.

Share Capital

1. Change in Share Capital

There was no change in the Company's share capital during the six months ended 30 June 1999.

2. Share capital Structure Shareholders

	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 1999, the following shareholders held more than 10% of the issued share capital of the Company:

Name	Number of shares held	Percentage of shareholding (%)
Eastern Air Group Company	3,000,000,000	61.64
HKSCC (Nominees) Limited	1,426,621,499	29.31

4. Directors, Supervisors and Senior Management Share Holding Statement

Name	Position	Number of A Shares held on 30 June 1999
Fu Yunbi	Chairman of the Board of Directors, Chief Executive Officer	2,800
Li Zhongming	Vice Chairman of the Board of Directors, President	2,800
Zhu Tonghai	Director	2,800
Xu Minzhu	Director, Vice President	2,800
Yan Banghong	Director, Vice President	2,800
Zhong Xiong	Director, Vice President	2,800
Chen Quanxin	Director	2,800
Wu Baiwang	Director	0
Gong Haocheng	Independent Non-executive Director	0
Hu Honggao	Independent Non-executive Director	0
Peter Lok	Independent Non-executive Director	0
Xiao Liyuan	Chairman of the Supervisory Committee	2,800
Ba Shengji	Supervisor	2,800
Qin Yaping	Supervisor	2,800
Da Shiwen	Supervisor	2,800
Feng Lei	Supervisor	2,800
Cao Jianxiong	Vice President, Chief Financial Officer	2,800
Ji Rensheng	Chief Pilot	2,800
Luo Zhuping	Company Secretary	2,800

Board of Directors' Statement (continued)

Except as disclosed above, none of the Directors, Supervisors and any member of senior management of the Company had a beneficial interest in the issued share capital of the Company as at 30 June 1999.

Material Matters

1. Dividends

The Board of Directors does not recommend any payment of interim dividends for the six months ended 30 June 1999.

2. Influence of Recent Economic Development

In the second half of 1999, the impact of the Asian financial crisis is expected to diminish. With the recovery of the economies in Asia, the demand for air traffic is expected to increase. However, the demand in the Chinese domestic aviation market will continue to remain sluggish and will not improve in the near future.

3. Staff Quarters

Employees who are married and have served the Group for four years or more can apply to acquire staff quarters. According to a notice issued by the State Council of the PRC, distribution of quarters to employees at discounted prices has been withdrawn commencing 1 July 1998 and all quarters cannot be sold at below cost. The specific timetable and procedures for implementation of such policy are to be determined by individual provincial or municipal government based on the particular situation of the region. As of the date of this interim report, the Shanghai Municipal Government has yet to issue the specific implementation timetable and procedures of the above policy. The Directors understand that the announcement of the specific implementation procedures has been postponed until the end of 1999. According to an announcement made by the Land Bureau of the Shanghai Municipal Government, however, disposal of staff quarters during the transitional period from 1 July 1999 to 31 December 1999 has to follow the original policy on housing reform of the PRC and the "Implementation Rules on Sales of Staff Quarters" (the "existing rules") issued by the Shanghai Municipal Government, and the selling price of staff quarters shall not be less than 10% of its original cost.

At present, the Group's staff quarters are in its completion stage and the Group intends to provide eligible staff the opportunity to acquire such quarters. According to the aforementioned Land Bureau's announcement, the Directors anticipate that such quarters upon completion will be sold to the staff at a substantial discount based on the existing rules. As at 30 June 1999, the Group made an accumulated provision of RMB310 million (RMB283 million after deducting minority interests) which is calculated based upon the budgeted/actual construction cost of the staff quarters upon completion and an estimated discount rate of 80%. Due to an additional construction costs incurred to complete the quarters, a further provision of approximately RMB30 million classified under other operating expenses in the consolidated profit and loss account was made during the six months ended 30 June 1999. The Directors are of the opinion that no further provision will be required.

4. The Year 2000 ("Y2K") Issue

The operation of the Group depends heavily on its computer systems, including its information management, flight scheduling, reservation service and financial settlement. The Group fully understands the significance of Y2K issue and has established a special working group to plan and solve its Y2K issue.

Board of Directors' Statement (continued)

To date, the Group has completed the assessment of its Y2K issue and has modified or upgraded all its computer systems and facilities. At present, the Group is in the process of testing its computer systems and facilities. The Group is also considering various contingency plans. The Group expects to resolve the Y2K issue by October 1999.

The Group estimates that Y2K issue will cost the Group approximately RMB6.2 million. The expenses incurred to 30 June 1999 by the Group amounts to RMB4.9 million. The remaining balance of RMB1.3 million has been authorized but not contracted for.

5. **Purchase of aviation business of China General Aviation Company ("CGAC")**

In order to complete the acquisition of the business and assets of the transportation service of the former CGAC and to avoid competition between the Company and its parent, Eastern Air Group Company ("Eastern Air"), the Company has established two new branches to assume the said business, the operation of the related routes as well as the management of related assets commencing 1 January 1999. The results of the said business have been incorporated as part of the Group's interim results as, pending completion of legal formalities, the aviation business and the related assets are already under the Company's control and management. As of the date of this report, the legal procedures in relation to the acquisition of the assets are in process, particularly the approval of the valuation of the assets by the relevant state authority. The valuation, which will be the basis for formulating the final purchase consideration for the assets, has no material impact to the Group's consolidated net assets as at 30 June 1999 nor to the Group's consolidated profit and loss account for the six month period ended 30 June 1999. The Board believes that the acquisition of the assets will be completed no later than the end of the financial year 1999 and the Company will make a further announcement when this transaction is completed.

6. **Purchase, Sale or Redemption of 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 1999.

7. **Compliance with Code of Best Practice**

The Company has 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 1999.

The Company is considering the establishment of an Audit Committee pursuant to "The Code of Best Practice". However, the Company's organizational structure has, in lieu, a Supervisory Committee which carries out functions similar to that of the Audit Committee, the difference being that the Company's Supervisory Committee comprises five representatives (two of which shall be an employees of the Company) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders instead of the Board of Directors, whereas an Audit Committee is appointed amongst the non-executive directors of the Company. The details will be disclosed in the next annual report.

8. **Material Litigation**

The Group was not involved in any material litigation or arbitration in the first half of 1999.

9. **Others**

- 1) The Group has no designated deposits as of 30 June 1999 nor has it experienced any failures to collect fixed deposits upon maturity.

Board of Directors' Statement (continued)

- 2) The Group 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 any preferential treatment of the 18% income tax refund from the government. Therefore, neither the unification of the income tax nor the cancellation of the preferential tax refund from the Chinese government has any significant impact on the Group.

Fu Yunbi

Chairman of the Board

China Eastern Airlines Corporation Limited

Shanghai, 25 August 1999

DOCUMENTATION AND ADDRESS FOR REVIEW

Documentation for review: Original copy of the interim report for the six months ended 30 June 1999 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.ce-air.com) [HTTP://WWW.IRASIA.COM](http://www.irasia.com) [HTTP://WWW.FIRSTCALL.COM](http://www.firstcall.com)