Notes:

1 Basis of preparation

This interim financial report of China Southern Airlines Company Limited (the "Company") and its subsidiaries (the "Group") is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants. KPMG's independent review report to the Board of Directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December, 2000 included in the interim financial report does not constitute the Group's annual accounts prepared under International Accounting Standards for that financial year but is derived from those accounts. The Group's annual accounts for the year ended 31 December, 2000 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 17 April, 2001.

The accounting policies have been consistently applied by the Group and, except for the adoption of IAS 39 "Financial Instruments: Recognition and Measurement" which is effective for accounts covering periods beginning on or after 1 January, 2001, are consistent with those adopted in the 2000 annual accounts.

IAS 39 establishes principles for recognising, measuring and disclosing information about financial assets and liabilities. It defines several categories of financial assets and liabilities. It also requires an entity to measure at fair value assets and liabilities qualified as trading or available-for-sale, and to recognise changes in fair value in the profit and loss account for trading assets and liabilities and equity for available-for-sale assets. In addition, IAS 39 requires an entity to recognise all derivative instruments on the balance sheet at fair value. The Group considers the adoption of IAS 39 did not have a material impact on its financial position or results of operations.

The notes on the unaudited interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

The IAS accounting policies adopted in preparing the unaudited interim financial report differ in certain material respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Differences which have a significant effect on the consolidated profit attributable to shareholders for the six months ended 30 June, 2001 and on the shareholders' equity as at that date are set out in note 14 below.

2 Turnover

The Group is principally engaged in the provision of domestic, Hong Kong regional and international passenger, cargo and mail airline services, with flights operating primarily from the Guangzhou Baiyun International Airport in the People's Republic of China ("PRC"), which is both the main hub of the Group's route network and the location of its corporate headquarters.

Turnover comprises revenues from airline and airline-related businesses and is stated net of sales tax and contributions to the CAAC Infrastructure Development Fund. The contributions to the CAAC Infrastructure Development Fund for the period are payable at 5% and 2%, respectively (2000: 5% and 2%, respectively) of the Group's domestic and international/Hong Kong regional traffic revenue.

The Group's turnover and operating profit by geographic region are analysed as follows:

	For the six months ended 30 June,			
	Domestic RMB'000	Hong Kong regional RMB'000	International RMB'000	Total RMB'000
2001				
Traffic revenue	6,176,683	585,207	1,138,376	7,900,266
Other revenue	161,018	—	9,088	170,106
	6,337,701	585,207	1,147,464	8,070,372
Operating profit	487,717	88,227	29,334	605,278
2000				
Traffic revenue	5,291,115	610,107	877,062	6,778,284
Other revenue	189,740	—	94,093	283,833
	5,480,855	610,107	971,155	7,062,117
Operating profit	620,186	86,672	91,891	798,749

3 Profit before taxation and minority interests

	For the six months ended 30 June, 2001 RMB'000	2000 RMB'000
Profit before taxation and minority interests is arrived at after charging:		
Jet fuel	1,812,589	1,323,265
Depreciation		
— owned assets	666,379	642,362
— assets held under finance leases	297,421	309,485
Staff costs	587,128	549,764
Operating lease charges in respect of aircraft	959,883	704,472
Amortisation of deferred expenditure	9,383	11,517
Interest on bank and other loans	155,906	163,460
Finance charges on obligations under finance leases	321,730	378,895
Total interest expense	477,636	542,355
and after crediting:		
Amortisation of gains on sale and leaseback transactions	11,532	11,532
Operating lease income in respect of aircraft	—	94,093
Profit on sale of aircraft *(Note)*	17,700	186,743

Note:

Pursuant to certain sale and leaseback arrangements entered into in March 2000 and March 2001, the Group sold two Boeing 757-200 aircraft and one Airbus 320-200 aircraft respectively to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of seven to eight years. For the six months ended 30 June, 2001, the Group recognised a profit of RMB17,700,000 (2000: RMB186,743,000), being the excess of the sale proceeds which approximate the aircraft's fair value on the date of disposal, over the aircraft's net book value and related disposal costs.

4 Taxation

	For the six months ended 30 June, 2001 RMB'000	2000 RMB'000
PRC income tax	22,768	23,705
Share of taxation of associated companies	6,421	6,308
	29,189	30,013
Deferred taxation	101,108	158,867
	130,297	188,880

Pursuant to the PRC income tax rules and regulations, the Group is subject to PRC income tax at a rate of 33%.

With respect to the Group's Hong Kong regional flight operations, the Group is exempt from Hong Kong profits tax pursuant to the double tax relief agreement between the PRC and Hong Kong Special Administrative Region governments.

In respect of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas and PRC governments, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for the periods presented.

Deferred taxation is accounted for using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit/loss. The tax value of losses expected to be available for utilisation against future taxable income is recognised as a deferred tax asset and offset against the deferred tax liability attributable to the same legal tax unit and jurisdiction. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.