



All Shareholders:

The Board of Directors of China Southern Airlines Company Limited (the "Company") hereby announces the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June, 2001.

Introduction

The Group is one of the largest Chinese airlines in terms of the number of passengers carried, number of scheduled flights per week, number of hours flown, number of routes and size of aircraft fleet. The Group operates the most extensive route network among all Chinese airlines. As at 30 June, 2001, the Group operated a total of 341 routes, including 282 domestic, 21 Hong Kong regional, and 38 international routes. During the six months ended 30 June, 2001, there was an average of 3,937 scheduled flight sectors in operation per week serving 89 cities. As at 30 June, 2001, the Group had a fleet of 110 aircraft, including 90 Boeing aircraft and 20 Airbus aircraft. The average age of the fleet was 7.10 years as at that date.

Business review

In the first half of 2001, the PRC economy continued to grow. Level of domestic consumer spending also grew steadily. These led to the growth in demand for aviation services in the region and the Group also benefited from such growth, with improvements in load factors and aircraft utilisation being recorded. Jet fuel prices however remained persistently high in the period and, as compared with same period last year, the average jet fuel price borne by the Group recorded an increase of about 18%. This put tremendous pressure on the Group's operations and to a certain extent, reduced its profitability.

During the first half of the year, the Civil Aviation Administration of China (the "CAAC") continued its stringent prohibition on discounting domestic airfares, and strengthened its control over the agency market. With respect to the revenue-sharing schemes for domestic routes, there are currently 15 domestic routes being implemented with distinct fare discount policies. In accordance with the specified applicable conditions, flight timing and cabin class, the airlines may offer fare discounts of not more than 40% to passengers. The implementation of this policy not only stimulated the growth in passenger volume, but also increased the market transparency.

On 27 April, 2001, the CAAC announced a consolidation and restructuring plan of the PRC aviation industry. Southern Airlines (Group) (the "SA Group"), the controlling shareholder of the Company, informed the Company that in order to take advantage of the benefits of scale, the SA Group voluntarily participates in the consolidation and restructuring plan of the PRC aviation industry under government proposals. Definitive talks on consolidation and restructuring have commenced with China Northern Airlines and Xinjiang Airlines. Up to date, the SA Group has not signed any agreement with respect to the subject matters. No tentative terms or plans or timetables have been reached for the subject matters. The Group expects that the consolidation and restructuring will bring positive impact on the Group's economies of scale.

On 18 June, 2001, the SA Group reached an agreement with the State Post Bureau of China for business co-operations with respect to postal transportation, ticketing agency, freight agency and delivery services and cargo transportation. It is expected that the Group can make use of the agreement to deploy postal resources for the enhancement of its aircraft load factors and expansion of the selling network for its passenger and cargo transportation services. It is also expected that the network for cargo transportation can be extended nationwide from the airport network to the postal network. This is expected to help enhancing the Group's competitiveness over door-to-door air freight services.

Enhancing management quality and strengthening cost control remain one of the Group's primary management focus. During the first half of this year, the Group continued strengthening its revenue management and promotion of service brand name while maintaining its aviation safety standards. To further consolidate its sales and revenue settlement management and to actively promote its e-ticketing and online seat reservation services, the Group continued to improve and upgrade its revenue management system and domestic passenger settlement management system at the various hubs. On the other hand, in order to reduce wasteful resources, efforts were devoted to improve management in air catering and supplies. Under the pressure of the sustained high level of jet fuel costs, the Group was still able to attain its expected target in respect of cost control. Its operating cost per available tonne kilometers (ATK) remained unchanged for both periods.



In order to expand its domestic network, increase its market share and enhance its service quality, the Company entered into code-sharing schemes on 8 domestic routes with China Yunnan Airlines, China Northern Airlines, Shanghai Airlines and Sichuan Airlines during the first half of this year. It is expected that such measures will to a certain extent mitigate the competition on such routes, and attract more traffic by providing passengers with convenient transit and mileage accumulation services.

As an essential part of its service enhancement programs, the Group focused on the upgrading of its two frequent-flyer programs, the CHINA SOUTHERN AIRLINES SKY PEARL CLUB and the EGRET MILEAGE PLUS. By the end of first half year, the two programs in total had approximately 1,020,000 members, with accumulated mileage of approximately 2,732 million kilometres.

For the review period, the Group's total traffic revenue was RMB7,900 million, an increase of RMB1,122 million or 16.6% from the same period last year. Meanwhile, the Group's total traffic volume increased by 23.0% to 1,449 million RTKs. The aggregate utilisation rate of the Group's Boeing and Airbus aircraft was 9.08 hours for the review period, an increase of 0.56 hour or 6.6% from last period.

Passenger revenue for the period was RMB7,207 million, up 16.6% from the same period last year, representing 91.2% of the Group's total traffic revenue. Moreover, passenger traffic volume increased by 19.4% to 12,007 million RPKs.

Domestic passenger revenue was RMB5,758 million, up 18.2% from the same period last year. Domestic passenger revenue accounted for 79.9% of overall passenger revenue. Domestic passenger capacity, in terms of ASKs, increased by 15.0% from the same period last year, while domestic passenger traffic increased by 17.1% from 7,900 million RPKs to 9,252 million RPKs during the same period. As a result, the passenger load factor increased by 1.1 percentage points to 59.9%. The Group's passenger yield per RPK remained unchanged at RMB0.62 for both periods.

On Hong Kong regional routes, the Group recorded passenger revenue of RMB560 million, down 4.1% from the first half of 2000. Hong Kong regional passenger revenue accounted for 7.8% of total passenger revenue. Passenger capacity, in terms of ASKs, decreased by 6.2% from same period last year, while passenger traffic decreased by 0.9% from 528 million RPKs to 523 million RPKs during the same period. As a result, the passenger load factor increased by 3.3 percentage points to 63.0%. Yield per RPK experienced a decrease of 3.6% during the period, primarily as a result of intensified competition.

Passenger revenue for the Group's international routes amounted to RMB889 million, representing an increase of 22.5% from the same period last year, and accounted for 12.3% of total passenger revenue. Passenger traffic for these routes increased by 37.1% to 2,232 million RPKs from 1,628 million RPKs same period last year, while the capacity, in terms of ASKs, increased by 26.9%. As a result, the passenger load factor increased by 4.7 percentage points to 64.1%. During the review period, the continued recovery of the Southeast Asian economies helped stimulating the demand for air transportation in the region, resulting in a rise in the Group's passenger revenue from these routes. Passenger yield per RPK however suffered a decrease of 11.1%, predominantly reflecting the effect of increasing long haul flights and fares discounts offered on two new long haul flights to Australia with a view to establish a presence in such market.

Cargo and mail revenue was RMB693 million, representing an increase of 16.2% from the same period last year, and accounted for 8.8% of total traffic revenue. Cargo and mail traffic volume increased by 34.6% to 377 million RTKs from 280 million RTKs same period last year, mainly driven by the growth in the existing passenger/cargo combined flights and the international freight route "Shenzhen - Chicago", which commenced operations in April 2000. As the growth of traffic volume was higher than that of traffic capacity, the load factor for cargo and mail increased by 2.3 percentage points to 50.4% for the review period. However, due to intensified competition in the domestic market, the overall yield per cargo and mail tonne kilometre decreased by 13.6% as compared with the same period last year.

Total operating expenses increased by 19.2% to RMB7,465 million as compared with the same period last year, primarily due to the expansion in flight operations, increased jet fuel prices, increased operating lease payments and increased aircraft repairs and maintenance.

Flight operation expenses increased by 30.8% to RMB3,432 million as compared with the first half of 2000. Of these expenses, jet fuel cost was RMB1,813 million and accounted for 52.8% of total flight operations expenses, up 37.0% from the same period last



year. The increase was mainly due to the rises in domestic and international fuel prices and the growth in flight operations. A substantial portion of the Group's fuel consumption is sourced domestically and the average domestic fuel prices borne by the Group increased by about 20.5% as compared with the same period last year. Operating lease payments increased by 36.3% to RMB960 million, due primarily to the wet leases of two Boeing 737-37K aircraft and three Boeing 737-300 aircraft commencing in the second half of 2000, the wet lease of a Boeing 747-400 freighter commencing in April 2000 and the new operating leases of four previously owned Boeing 757-200 aircraft under sale and leaseback arrangements effected last year. Air catering expenses increased by 18.2% to RMB260 million, primarily as a result of the higher number of passengers carried during the review period. Labour costs of flight personnel increased by 11.7% to RMB287 million due largely to an increase in flight hours.

As compared with the first half of 2000, maintenance expenses increased by 19.9% to RMB851 million. The increase was primarily attributable to the growth in flight operations in the period and the expansions of the Group's air fleet in recent years.

As compared with the same period last year, aircraft and traffic servicing expenses increased by 12.8% to RMB1,122 million, due mainly to the growth in flight operations.

Promotion and sales expenses increased by 14.9% to RMB693 million as compared with the same period last year. The increase was mainly attributable to a rise in agency commission expense resulting from the increase in traffic revenue as well as intensified competition in the domestic market.

As compared with the same period last year, depreciation and amortisation expenses increased slightly by 1.0% to RMB973 million, primarily reflecting the general additions of flight equipment and other fixed assets in the review period.

Profit on sale of fixed assets amounted to RMB18 million in the review period, which was mainly derived from the sale of an Airbus 320-200 aircraft pursuant to a sale and leaseback arrangement effected in March 2001.

Interest expense decreased by 11.9% to RMB478 million in the review period, primarily reflecting the scheduled debt repayments.

The Group recorded a net exchange gain of RMB206 million predominantly relating to its Japanese yen denominated borrowings, as a result of the Japanese yen depreciation. A major part of such amount represented unrealised translation gains.

As a result of the aforementioned factors, for the six months ended 30 June, 2001, the Group's net profit attributable to shareholders decreased by 42.1% to RMB201 million.