



中国南方航空
CHINA SOUTHERN



Interim Report **2002**





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, 2002.

INTRODUCTION

The Group is one of the largest airlines in the PRC in terms of volume of passenger traffic, number of scheduled flights per week, number of hours flown, route networks and size of aircraft fleet. The Group operates the most extensive route network among all PRC airlines. As at 30 June, 2002, the Group operated a total of 323 routes, of which 263 were domestic, 21 were Hong Kong regional and 39 were international. For the six months ended 30 June, 2002, the Group operated an average of 2,907 scheduled flights per week, serving 87 cities. As at 30 June 2002, the Group operated a fleet of 111 aircraft, of which 92 were Boeing aircraft and 19 were Airbus aircraft. The average age of the fleet was 7.75 years as at 30 June, 2002.

BUSINESS OVERVIEW

For the first half of 2002, the Group reported continuous growth in the air transportation business, with significant improvement in revenue passenger kilometres (RPK), passenger load factor and aircraft utilisation rate. Despite the increase in aircraft insurance costs resulted from the 911 incident, the Group’s operating profit for the said period increased remarkably by 36.5% to RMB826 million, mainly due to a decrease in operating cost per unit of available tonne kilometres resulted from decrease in fuel cost and the Group’s persistent and stringent control over operating costs. For the six months ended 30 June, 2002, the Group recorded a net profit of RMB123 million, a decrease of 38.8% as compared to the same period last year. The decrease was mainly due to an exchange loss on retranslating the Japanese yen debts of the Group as a result of the appreciation of Japanese yen during the period, which reduced the net profit of the Group.

During the first half of 2002, the aviation industry continued to actively implement the consolidation and restructuring plan driven by the PRC government. In January 2002, the consolidation and restructuring proposal among Southern Airlines (Group) (the “SA Group”), China Northern Airlines and Xinjiang Airlines was approved by the PRC government. Detailed consolidation and restructuring plan is pending approval by the relevant PRC authorities.

In March 2002, the Company received its independent shareholders’ approval at the 2002 first extraordinary general meeting for the acquisition of the airline related assets of Zhongyuan Airlines, a subsidiary of the SA Group, which is to be effective upon the completion of the relevant legal transfer procedures.

In June 2002, the Company entered into an Interest Transfer and Capital Injection Agreement with the China State Post Bureau, Shanghai Municipal Post Office, Post Office of the Inner Mongolia Autonomous Region and China Philately Corporation, whereby the Company agreed to inject RMB150 million to acquire 49% equity interest of China Postal Airlines Limited, while the China State Post Bureau will own the remaining 51% equity interest. The Board of Directors of the Company believes that this strategic acquisition of the equity interest of China Postal Airlines Limited will enable the Company to strengthen its domestic and international logistic and cargo transportation business. This acquisition was completed and became effective in July 2002.

In order to expand financing channels, raise funds and widen shareholder base, the Company has applied to the relevant PRC government authorities for the allotment and issuance of not more than 1,000,000,000 A shares, and for the approval of listing the A Shares on the Shanghai Stock Exchange (the "Proposed A Share Issue"). The Proposed A Share Issue was approved by independent shareholders at the extraordinary general meetings convened on 26 March, 2002 and 21 May, 2002, whereby the Board was authorised to plan and represent the Company to deal with all matters in relation to the Proposed A Share Issue.

To restructure the domestic aviation market and regulate the conduct of the domestic airlines and their sales agents, various functional departments under the State Council, including the Civil Aviation Administration of China (the "CAAC"), the State Development Planning Commission, the Ministry of Public Security, the State Administration of Taxation and the State Management Administration, convened a joint conference in June 2002, whereby it was determined to sanction illegal discounting and illegal selling of domestic air tickets in the domestic aviation market. All airlines and their sales agents are requested to comply strictly with the existing pricing policies and the relevant regulations. The Company believes that this will further regulate the behaviour of the domestic aviation market and curb vicious competition resulting from illegal price cutting, and will have a positive effect on the Group's revenue.

For the review period, the Group's total traffic revenue was RMB8,344 million, an increase of RMB444 million or 5.6% from the same period last year. Meanwhile, the Group's total traffic volume increased by 15.5% to 1,674 million RTKs. The aggregate utilisation rate of the Group's Boeing and Airbus aircraft was 9.71 hours for the review period, an increase of 0.63 hour or 6.9% from the same period last year.

Passenger revenue for the review period was RMB7,619 million, up 5.7% from the same period last year, representing 91.3% of the Group's total traffic revenue. Passenger traffic volume increased by 16.5% to 13,985 million RPKs.

Domestic passenger revenue was RMB5,998 million, up 4.2% from the same period last year. Domestic passenger revenue accounted for 78.7% of overall passenger revenue. Passenger capacity, in terms of ASKs, increased by 8.3% from the same period last year, while passenger traffic increased by 16.0% from 9,252 million RPKs last period to 10,728 million RPKs this period. As a result, the passenger load factor increased by 4.2 percentage points to 64.1%. The passenger yield per RPK decreased by 9.7% from RMB0.62 last period to RMB0.56 this period resulting from the downward adjustment of the fuel surcharge rate and the intensified competition in the domestic market.

On Hong Kong regional routes, the Group recorded passenger revenue of RMB531 million in the review period, down 5.2% from the same period last year. Hong Kong regional passenger revenue accounted for 7.0% of the total passenger revenue. Passenger capacity, in terms of ASKs, increased by 3.7%, while passenger traffic increased by 0.2% from 523 million RPKs last period to 524 million RPKs this period. As a result, the passenger load factor decreased by 2.1 percentage points to 60.9%. The passenger yield per RPK experienced a decrease of 5.6%, primarily as a result of the decrease in effective fares caused by increased competition.

Passenger revenue for the Group's international routes amounted to RMB1,090 million, an increase of 22.6% from the same period last year. International passenger revenue accounted for 14.3% of the total passenger revenue. Passenger capacity, in terms of ASKs, increased by 17.6%, while passenger traffic increased by 22.4% to 2,733 million RPKs this period from 2,232 million RPKs last period. As a result, the passenger load factor increased by 2.7 percentage points to 66.8%. The passenger yield per RPK remained unchanged at RMB0.40 for both periods.

Cargo and mail revenue was RMB725 million, an increase of 4.6% from the same period last year. Cargo and mail revenue accounted for 8.7% of the total traffic revenue. Cargo and mail volume increased by 12.7% to 425 million RTKs this period from 377 million RTKs last period, mainly driven by the increased demand for domestic and international cargo transportation. The overall yield per cargo and mail tonne kilometre, however, decreased by 7.1% due to the intensified competition in the domestic market.

The Group's other revenue was RMB214 million, an increase of 25.8% from the same period last year. The increase was primarily due to the rise in aircraft lease income and general fluctuations in various ancillary operations.

Total operating expenses increased by 3.6% to RMB7,732 million from the same period last year, primarily due to the net effect of increases in aircraft insurance costs and aircraft repairs and maintenance costs, and a decrease in fuel cost.

Flight operations expenses decreased slightly by 0.3% to RMB3,423 million in the review period. Of these expenses, fuel cost was RMB1,638 million, accounting for 47.9% of flight operations expenses, down 9.6% from the same period last year. The decrease was mainly due to the net effect of a drop in domestic and international fuel prices and an increase in fuel consumption resulting from 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 decreased by about 17.2% from the same period last year. Aircraft insurance costs increased by 257.1% to RMB129 million, primarily due to a rise in aircraft insurance premiums subsequent to the 911 incident. Operating lease payments decreased slightly by 1.0% to RMB951 million as there was no material change in the number of aircraft under operating leases during both periods. Air catering expenses increased by 18.5% to RMB308 million, primarily as a result of the increased number of passengers carried during the review period. Labour costs of flight personnel increased by 11.8% to RMB321 million, largely due to an increase in flight hours.

As compared to the first half of 2001, maintenance expenses increased by 19.2% to RMB1,015 million. The increase was primarily attributable to the growth in flight operations and the continuous expansion of the Group's fleet in recent years.

Aircraft and traffic servicing expenses increased by 7.1% from the same period last year to RMB1,202 million, mainly due to the growth in flight operations.

Promotion and sales expenses increased by 5.5% to RMB731 million as compared to the same period last year. The increase was mainly attributable to the growth in traffic volume.

As compared to the same period last year, depreciation and amortisation expenses decreased by 4.8% to RMB926 million, primarily as a result of the disposal of two Airbus 320-200 aircraft under sale and leaseback transactions in 2001 and certain old flight equipment having been fully depreciated during the review period.

Loss on sale of fixed assets amounted to RMB7 million in the review period, which was mainly derived from the disposal of certain old or damaged fixed assets.

Interest expense decreased by 13.3% to RMB414 million in the review period, primarily reflecting the scheduled debt repayments.



The Group recorded a net exchange loss of RMB159 million predominantly relating to its Japanese yen denominated borrowings as a result of the appreciation of Japanese Yen during the review period. The major part of such amount represented unrealised translation loss.

As a result of the aforementioned factors, for the six months ended 30 June, 2002, the Group's net profit attributable to shareholders decreased by 38.8% to RMB123 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June, 2002, the Group's borrowings totalled RMB16,818 million, an increase of RMB1,869 million from RMB14,949 million as at 31 December, 2001. Such borrowings were denominated, to a larger extent, in United States dollars and, to a smaller extent, in Japanese yen and Renminbi, with a major part being fixed interest rate borrowings. The increased borrowings were mainly used to finance the capital investments of the Group, including aircraft procurements and facilities in the new Guangzhou airport. As at 30 June, 2002, cash and cash equivalents of the Group totalled RMB2,848 million, an increase of RMB30 million from RMB2,818 million as at 31 December, 2001. Of such balance, 8.5% was denominated in foreign currencies (mainly in United States dollars) and the remaining was denominated in Renminbi. Net debts (total borrowings net of cash and cash equivalents) as at 30 June, 2002 increased by 15.2% to RMB13,970 million from RMB12,131 million as at 31 December, 2001.

As at 30 June, 2002, the Group's shareholders' equity amounted to RMB9,161 million, an increase of RMB56 million from RMB9,105 million as at 31 December, 2001, representing the net effect of the final dividend for 2001 financial year approved in the review period and net profit attributable to shareholders for the period.

Net debt/equity ratio of the Group as at 30 June, 2002 was 1.52 times, as compared to 1.33 times as at 31 December, 2001, reflecting mainly the increase in borrowings of the Group.

FINANCIAL RISK MANAGEMENT POLICY

In the normal course of business, the Group is exposed to fluctuations in foreign currency exchange rates and jet fuel prices. The Group's exposure to foreign currencies is mainly attributable to its debts denominated in foreign currencies. Depreciation or appreciation of the Renminbi against foreign currencies could significantly affect the Group's results and financial position because the Group's foreign currency payments generally exceed its foreign currency receipts. The Group is not able to effectively hedge its foreign currency exposure other than retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange, or subject to certain restrictive conditions, entering into forward foreign exchange contracts with authorised PRC banks.

The Group is required to procure a majority of its jet fuel consumption domestically at PRC spot market prices. There are currently no effective means available to the Group for managing its exposure associated with the fluctuations in domestic jet fuel prices.

CHARGES ON ASSETS

As at 30 June, 2002, certain aircraft of the Group with an aggregate carrying value of approximately RMB13,885 million (as at 31 December, 2001: RMB14,295 million) were pledged as collateral under certain loan and lease agreements.



CAPITAL AND INVESTING COMMITMENTS

As at 30 June, 2002, the Group had capital commitments of approximately RMB13,368 million. Of such amounts, RMB9,533 million was related to the acquisition of aircraft and related flight equipment and RMB3,327 million was related to the Group's facilities and equipment to be constructed and installed at the Guangzhou new airport. The remaining amount of RMB508 million was related to the Group's other airport and office facilities and equipment, overhaul and maintenance bases and training facilities. The Group's capital expenditures are generally subject to receipt of various approvals of the PRC governments and may be subject to change depending on the timing of such approvals, prevailing market conditions, the availability of financing and other relevant factors.

As at 30 June, 2002, the Group was committed to make a capital contribution of approximately RMB126 million and RMB454 million respectively to its jointly controlled entity and associated companies.

CONTINGENT LIABILITIES

There have been no material changes in the contingent liabilities of the Group subsequent to 31 December, 2001.

RECENT ECONOMIC DEVELOPMENT

The review period witnessed a recovery in the Asia Pacific Region's aviation market, the continuous economic development of the PRC economy, and the persistent efforts of the PRC government to regulate market competition. All these factors have helped to maintain the overall revenue level of the PRC airlines. The CAAC continued to advocate and encourage consolidation and restructuring of the PRC airlines. The Group, being under the SA Group, is one of the three leading PRC airlines. It intends to engage actively in the consolidation and restructuring of the PRC airlines.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

Looking ahead, the Group will continue to benefit from further improvement of the aviation market in Asian countries covered by the Group's route networks.

It is expected that the regulatory measures on the PRC airlines by the PRC government will serve to stabilise the overall revenue of the PRC airlines. The policy of consolidation and restructuring among the PRC airlines will be a driving force for acquisition and merger within the industry and will improve market discipline. Intensive competition both within and outside the PRC and cost factors such as increase in fuel prices and the fluctuation of exchange rate of Japanese yen and United States dollar will lead to a challenging operating environment in the second half of 2002.

For the second half of 2002, the Group intends to continue to pursue consolidation and restructuring, to expand route networks and to increase market shares. Moreover, the Group intends to adopt the following measures to further enhance its operating efficiency and competitiveness:

- to adapt to new market conditions, to revise overall marketing strategies, to enhance the Group's marketing standard, to increase market shares and to improve overall effectiveness;
- to further strengthen operating efficiency and overall service quality and to control operating costs;

- to enhance international airfreight capacity by taking delivery of a second Boeing747 – 400 freighter.

USE OF PROCEEDS

As stated in the 2001 annual report of the Group, as at 31 December, 2001, the Group had RMB40 million remaining from the proceeds of the Company's initial public offer. As at 30 June, 2002, the sum of RMB40 million remained unused.

Consistent with the disclosure in the Prospectus of the Company dated July 1997, the Company intends to use the remaining proceeds of RMB40 million (held as at 30 June, 2002 as short-term deposits with Southern Airlines Group Finance Company Limited, a PRC authorised financial institution and an associated company of the Group) for various projects, including the development of the computerised accounting system.

DIVIDENDS

A final dividend of RMB0.02 per share totalling RMB67,484,000 in respect of the year ended 31 December, 2001 was approved during the period (2000: Nil).

The Board of Directors does not propose to declare an interim dividend for the year 2002 (2001: Nil).

STRUCTURE OF SHARE CAPITAL

As at 30 June, 2002, the share capital of the Company is comprised of 3,374,178,000 shares, of which approximately 65.2% or 2,200,000,000 State-owned Shares were held by the SA Group and approximately 34.8% or 1,174,178,000 H Shares were held by Hong Kong and overseas investors.

SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2002, each of the following shareholders had an interest of 10% or more in the Company's shares:

Name	Number of Shares	Approximate Percentage of The Total Number of Shares
SA Group	2,200,000,000	65.20%
HKSCC Nominees Limited	1,146,003,999	33.96%

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company during the first half of 2002.



EQUITY INTERESTS IN THE COMPANY HELD BY THE DIRECTORS AND SUPERVISORS

As at 30 June, 2002, none of the directors or supervisors of the Company owns any interests in the Company or its subsidiaries which is required to be disclosed to the Company and the Stock Exchange of Hong Kong Limited pursuant to Section 28 of the Securities (Disclosure of Interests) Ordinance, or which shall be registered by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance.

COMPREHENSIVE SERVICES AND EMPLOYEE BENEFITS

In accordance with a comprehensive services agreement entered into between the Company and the SA Group on 22 May, 1997 (the "Service Agreement"), the SA Group will receive fees for providing or causing to be provided to the Group and its employees certain housing services for a term from 22 May, 1997 to 31 December, 2006. The Service Agreement provides that the SA Group will sell or rent housing to eligible employees at a price below market price. As the housing is sold or rented below cost, and the construction costs of the leased housing were originally paid by the SA Group, the Company shall pay an annual sum of RMB85 million to the SA Group by quarterly installments in arrears for ten years from 1995 to 2004.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 30 June, 2002, the Group's deposits placed with financial institutions or other parties did not include any designated deposits or overdue time deposits against which the Group failed to receive repayments.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors of the Company consider that, in the six months ended 30 June, 2002, the Group was in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited.

MATERIAL LITIGATION

The Group was not involved in any material litigation or dispute in the six months ended 30 June, 2002.

By order of the Board of Directors

Yan Zhi Qing

Chairman

Guangzhou, the PRC
23 August, 2002



Documents Available for Inspection and Address for Inspection:

Documents available for inspection: Original copy of this interim report signed by the Chairman.

Address for Inspection: The Secretarial Office of the Board of Directors of the China Southern Airlines Company Limited, Baiyun Airport, Guangzhou, the People's Republic of China.

Website: www.cs-air.com

OPERATING DATA SUMMARY

	For the six months ended 30 June,		2002 vs 2001	
	2002	2001	Increase/(decrease)	(%)
Capacity				
Available seat kilometres (ASK) (million)				
– Domestic	16,742	15,455	1,287	8.3
– Hong Kong regional	861	830	31	3.7
– International	4,094	3,480	614	17.6
Total	<u>21,697</u>	<u>19,765</u>	<u>1,932</u>	9.8
Available tonne kilometres (ATK) (million)				
– Domestic	1,951	1,782	169	9.5
– Hong Kong regional	95	91	4	4.4
– International	733	653	80	12.3
Total	<u>2,779</u>	<u>2,526</u>	<u>253</u>	10.0
Kilometres flown (thousand)	<u>125,745</u>	<u>114,870</u>	<u>10,875</u>	9.5
Hours flown (thousand)	<u>197</u>	<u>180</u>	<u>17</u>	9.4
Number of landing and take-offs				
– Domestic	96,415	90,314	6,101	6.8
– Hong Kong regional	6,839	6,843	(4)	(0.1)
– International	6,653	5,214	1,439	27.6
Total	<u>109,907</u>	<u>102,371</u>	<u>7,536</u>	7.4
Traffic				
Revenue passenger kilometres (RPK) (million)				
– Domestic	10,728	9,252	1,476	16.0
– Hong Kong regional	524	523	1	0.2
– International	2,733	2,232	501	22.4
Total	<u>13,985</u>	<u>12,007</u>	<u>1,978</u>	16.5
Revenue tonne kilometres (RTK) (million)				
– Domestic	1,220	1,056	164	15.5
– Hong Kong regional	52	52	–	–
– International	402	341	61	17.9
Total	<u>1,674</u>	<u>1,449</u>	<u>225</u>	15.5

China Southern Airlines Company Limited

	For the six months ended 30 June,		2002 vs 2001	
	2002	2001	Increase/(decrease) (%)	
Passenger tonne kilometres (million)				
– Domestic	958	826	132	16.0
– Hong Kong regional	47	47	–	–
– International	244	199	45	22.6
Total	1,249	1,072	177	16.5
Cargo and mail tonne kilometres (million)				
– Domestic	262	230	32	13.9
– Hong Kong regional	5	5	–	–
– International	158	142	16	11.3
Total	425	377	48	12.7
Passengers carried (thousand)				
– Domestic	8,977	7,879	1,098	13.9
– Hong Kong regional	667	715	(48)	(6.7)
– International	750	585	165	28.2
Total	10,394	9,179	1,215	13.2
Cargo and mail carried (thousand tonne)				
– Domestic	190	163	27	16.6
– Hong Kong regional	7	7	–	–
– International	19	17	2	11.8
Total	216	187	29	15.5
Load factors				
Passenger load factor (RPK/ASK) (%)				
– Domestic	64.1	59.9	4.2	7.0
– Hong Kong regional	60.9	63.0	(2.1)	(3.3)
– International	66.8	64.1	2.7	4.2
Total	64.5	60.7	3.8	6.3
Average load factor (RTK/ATK) (%)				
– Domestic	62.5	59.3	3.2	5.4
– Hong Kong regional	54.7	57.1	(2.4)	(4.2)
– International	54.8	52.2	2.6	5.0
Total	60.2	57.4	2.8	4.9
Breakeven load factor (%)	55.8	54.6	1.2	2.2



	For the six months ended 30 June,		2002 vs 2001	
	2002	2001	Increase/(decrease)	(%)
Yield				
Yield per RPK (RMB)				
– Domestic	0.56	0.62	(0.06)	(9.7)
– Hong Kong regional	1.01	1.07	(0.06)	(5.6)
– International	0.40	0.40	–	–
Total	<u>0.54</u>	<u>0.60</u>	<u>(0.06)</u>	(10.0)
Yield per cargo and mail tonne kilometre (RMB)	<u>1.71</u>	<u>1.84</u>	<u>(0.13)</u>	(7.1)
Yield per RTK (RMB)				
– Domestic	5.28	5.85	(0.57)	(9.7)
– Hong Kong regional	10.81	11.25	(0.44)	(3.9)
– International	3.32	3.34	(0.02)	(0.6)
Total	<u>4.99</u>	<u>5.45</u>	<u>(0.46)</u>	(8.4)
Fleet				
Number of aircraft in service at period end				
– Boeing	92	90	2	2.2
– Airbus	19	20	(1)	(5.0)
Total	<u>111</u>	<u>110</u>	<u>1</u>	0.9
Aircraft utilisation rate (hours per day)				
– Boeing	9.82	9.19	0.63	6.9
– Airbus	9.20	8.60	0.60	7.0
Total	<u>9.71</u>	<u>9.08</u>	<u>0.63</u>	6.9
Financial				
Operating cost per ASK (RMB)	<u>0.36</u>	<u>0.38</u>	<u>(0.02)</u>	(5.3)
Operating cost per ATK (RMB)	<u>2.78</u>	<u>2.96</u>	<u>(0.18)</u>	(6.1)

The Board of Directors of the Company hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June, 2002, prepared in accordance with the basis of preparation set out in Note 1, together with the comparative figures for the corresponding period of 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Note	For the six months ended 30 June,				2002 vs 2001 Increase/ (decrease) %
		2002 RMB'000	2001 RMB'000	2002 HK\$'000	2002 US\$'000	
Traffic revenue:						
Passenger		7,618,775	7,206,817	7,183,457	920,464	5.7
Cargo and mail		725,684	693,449	684,220	87,674	4.6
		<u>8,344,459</u>	<u>7,900,266</u>	<u>7,867,677</u>	<u>1,008,138</u>	5.6
Other revenue		213,958	170,106	201,733	25,849	25.8
Turnover	2	<u>8,558,417</u>	<u>8,070,372</u>	<u>8,069,410</u>	<u>1,033,987</u>	6.0
Operating expenses:						
Flight operations		3,422,641	3,432,021	3,227,080	413,507	(0.3)
Maintenance		1,015,131	851,458	957,129	122,643	19.2
Aircraft and traffic servicing		1,202,009	1,122,367	1,133,329	145,221	7.1
Promotion and sales		731,128	692,943	689,353	88,331	5.5
General and administrative		431,042	387,175	406,413	52,076	11.3
Depreciation and amortisation		926,274	973,183	873,349	111,908	(4.8)
Other		4,260	5,947	4,017	515	(28.4)
Total operating expenses		<u>7,732,485</u>	<u>7,465,094</u>	<u>7,290,670</u>	<u>934,201</u>	3.6
Operating profit		<u>825,932</u>	<u>605,278</u>	<u>778,740</u>	<u>99,786</u>	36.5
Non-operating income/(expenses):						
Share of associated companies' results		19,047	24,057	17,959	2,301	(20.8)
(Loss)/profit on sale of fixed assets		(7,102)	17,656	(6,696)	(858)	(140.2)
Interest income		26,196	28,034	24,699	3,165	(6.6)
Interest expense	3	(414,273)	(477,636)	(390,602)	(50,051)	(13.3)
Exchange (loss)/ gain, net		(158,644)	205,564	(149,579)	(19,167)	(177.2)
Other, net		1,505	1,335	1,419	182	12.7
Total net non-operating expenses		<u>(533,271)</u>	<u>(200,990)</u>	<u>(502,800)</u>	<u>(64,428)</u>	165.3
Profit before taxation and minority interests	3	<u>292,661</u>	<u>404,288</u>	<u>275,940</u>	<u>35,358</u>	(27.6)
Taxation	4	<u>(98,767)</u>	<u>(130,297)</u>	<u>(93,124)</u>	<u>(11,933)</u>	(24.2)
Profit before minority interests		<u>193,894</u>	<u>273,991</u>	<u>182,816</u>	<u>23,425</u>	(29.2)
Minority interests		<u>(70,665)</u>	<u>(72,500)</u>	<u>(66,627)</u>	<u>(8,537)</u>	(2.5)
Profit attributable to shareholders		<u>123,229</u>	<u>201,491</u>	<u>116,189</u>	<u>14,888</u>	(38.8)
Basic earnings per share	5	<u>RMB0.04</u>	<u>RMB0.06</u>	<u>HK\$0.03</u>	<u>US\$0.004</u>	(38.8)

The notes on pages 16 to 23 form part of this interim financial report.



CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES (UNAUDITED)

For the six months ended 30 June, 2002

(Expressed in Renminbi)

There was no gain or loss recognised directly in equity during the six months ended 30 June, 2001 and 2002.

The notes on pages 16 to 23 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June, 2002

(Expressed in Renminbi)

	Note	As at 30 June, 2002 RMB'000	As at 31 December, 2001 RMB'000
Non-current assets			
Fixed assets		23,524,851	22,352,215
Construction in progress		559,603	340,063
Lease prepayments		180,739	183,394
Interest in associated companies		539,674	531,055
Interest in jointly controlled entity		257,104	174,338
Other investments		196,823	195,201
Lease and equipment deposits		2,592,429	2,265,003
Deferred expenditure		39,940	48,183
Long term receivables		11,071	11,091
Other assets		1,295,680	—
		29,197,914	26,100,543
Current assets			
Inventories		509,293	467,018
Trade receivables	7	699,826	556,542
Other receivables		234,583	196,751
Prepaid expenses and other assets		343,387	340,157
Cash and cash equivalents		2,847,717	2,817,863
		4,634,806	4,378,331
Current liabilities			
Bank and other loans		4,221,930	2,177,516
Obligations under finance leases		1,437,750	1,451,929
Amounts due to related companies		500,290	718,265
Other liabilities		635,618	678,133
Accounts payable	8	404,176	590,700
Bills payables		263,988	—
Sales in advance of carriage		352,999	370,546
Accrued expenses		2,158,972	2,013,555
Dividend payable	6	67,484	—
Taxes payable		48,420	73,464
		10,091,627	8,074,108
Net current liabilities		(5,456,821)	(3,695,777)
Total assets less current liabilities		23,741,093	22,404,766
Non-current liabilities and deferred items			
Bank and other loans		4,014,539	3,627,594
Obligations under finance leases		7,143,549	7,691,634
Provision for major overhauls		125,806	125,661
Other liabilities		1,295,680	—
Deferred credits		62,641	15,072
Deferred taxation		537,322	462,082
		13,179,537	11,922,043
Net assets		10,561,556	10,482,723

The notes on pages 16 to 23 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)

As at 30 June, 2002

(Expressed in Renminbi)

	Note	As at 30 June, 2002 RMB'000	As at 31 December, 2001 RMB'000
Representing:			
Share capital		3,374,178	3,374,178
Reserves	9	5,786,497	5,730,752
Shareholders' equity		9,160,675	9,104,930
Minority interests		1,400,881	1,377,793
		10,561,556	10,482,723

Approved and authorised for issue by the board of directors on 23 August, 2002

YAN ZHI QING
Director

WANG CHANG SHUN
Director

XU JIE BO
Director

The notes on pages 16 to 23 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June, 2002

(Expressed in Renminbi)

	For the six months ended 30 June,	
	2002	2001
	RMB'000	RMB'000
Net cash inflows from operating activities	1,048,230	1,397,280
Net cash used in investing activities	(2,679,185)	(1,548,102)
Net cash outflows before financing activities	(1,630,955)	(150,822)
Net cash inflows/(outflows) from financing activities	1,660,809	(884,526)
Increase/(decrease) in cash and cash equivalents	29,854	(1,035,348)
Cash and cash equivalents as at 1 January	2,817,863	4,197,455
Cash and cash equivalents as at 30 June	<u>2,847,717</u>	<u>3,162,107</u>

The notes on pages 16 to 23 form part of this interim financial report.



Notes:

1 Basis of preparation

This interim financial report of China Southern Airlines Company Limited (the “Company”) and its subsidiaries (collectively, 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 24.

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 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December, 2001 included in the interim financial report does not constitute the Group’s annual financial statements prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board for that financial year but is derived from those financial statements. The Group’s annual financial statements for the year ended 31 December, 2001 are available at the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 April, 2002.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2001 annual financial statements except that as described in Note 9 that land use rights are carried at historical cost basis effective 1 January, 2002.

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 2001 annual financial statements.

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 (2001: 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	Hong Kong Regional	International	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2002				
Traffic revenue	6,446,767	561,897	1,335,795	8,344,459
Other revenue	213,958	–	–	213,958
	<u>6,660,725</u>	<u>561,897</u>	<u>1,335,795</u>	<u>8,558,417</u>
Operating profit	<u>685,085</u>	<u>70,276</u>	<u>70,571</u>	<u>825,932</u>
2001				
Traffic revenue	6,176,683	585,207	1,138,376	7,900,266
Other revenue	161,018	–	9,088	170,106
	<u>6,337,701</u>	<u>585,207</u>	<u>1,147,464</u>	<u>8,070,372</u>
Operating profit	<u>487,717</u>	<u>88,227</u>	<u>29,334</u>	<u>605,278</u>



3 Profit before taxation and minority interests

	For the six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
Profit before taxation and minority interests is arrived at after charging:		
Jet fuel	1,637,875	1,812,589
Depreciation		
– owned assets	658,558	666,379
– assets held under finance leases	258,138	297,421
Staff costs	676,932	587,128
Operating lease charges in respect of aircraft	950,730	959,883
Amortisation of deferred expenditure	9,578	9,383
Interest on bank and other loans	180,162	155,906
Finance charges on obligations under finance leases	266,877	321,730
Less: borrowing costs capitalised	(32,766)	–
Net interest expense	<u>414,273</u>	<u>477,636</u>
and after crediting:		
Amortisation of gains on sale and leaseback transactions	4,113	11,532
Operating lease income in respect of aircraft	18,841	–
Profit on sale of aircraft	–	17,700
	<u>–</u>	<u>17,700</u>

4 Taxation

	For the six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
PRC income tax	18,393	22,768
Share of taxation of associated companies	5,134	6,421
	<u>23,527</u>	<u>29,189</u>
Deferred taxation	75,240	101,108
	<u>98,767</u>	<u>130,297</u>

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.

5 Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of RMB123,229,000 (2001: RMB201,491,000) and the weighted average number of shares in issue during the period of 3,374,178,000 (2001: 3,374,178,000).

There were no dilutive potential shares in existence during the six months ended 30 June, 2001 and 2002.

6 Dividends

Dividend attributable to the previous financial year, and approved during the period:

	For the six months ended 30 June,	
	2002	2001
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period, of RMB0.02 per share (2001: RMB Nil per share)	67,484	—

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June, 2002 (2001: Nil).



7 Trade receivables

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. An ageing analysis of trade receivables, net of provisions for bad and doubtful accounts, is as follows:

	As at 30 June, 2002 RMB'000	As at 31 December, 2001 RMB'000
Within 1 month	620,979	419,765
More than 1 month but less than 3 months	70,907	128,388
More than 3 months but less than 12 months	7,940	8,389
	<u>699,826</u>	<u>556,542</u>

8 Accounts payable

An ageing analysis of accounts payable is as follows:

	As at 30 June, 2002 RMB'000	As at 31 December, 2001 RMB'000
Due within 1 month or on demand	118,194	140,172
Due after 1 month but within 3 months	135,459	194,665
Due after 3 months but within 6 months	150,523	255,863
	<u>404,176</u>	<u>590,700</u>

9 Reserves

Effective 1 January, 2002, land use rights which are included in lease prepayments are carried at historical cost basis. Accordingly, the surplus on the revaluation of land use rights was eliminated against shareholders' equity at 1 January, 2002. The effect of this change did not have a material impact on the Group's financial position and results of operations in the periods prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset is created with a corresponding increase in shareholders' equity.

No transfer to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve has been made during the period and the corresponding period. According to the Articles of Association of the Company and certain of its subsidiaries and the PRC Company Law, any such transfer shall be proposed by the respective board of directors and approved by shareholders in the annual general meeting.

10 Commitments

(a) Capital commitments

As at 30 June, 2002, the Group had capital commitments as follows:

	As at 30 June, 2002 RMB'000	As at 31 December, 2001 RMB'000
Commitments in respect of aircraft and related equipment – authorised and contracted for	<u>9,532,934</u>	<u>12,052,703</u>
Commitments in respect of investments at Guangzhou new airport – authorised and contracted for	<u>268,864</u>	157,250
– authorised but not contracted for	<u>3,058,184</u>	<u>3,338,984</u>
	<u>3,327,048</u>	3,496,234
Other commitments – authorised and contracted for	<u>35,100</u>	43,011
– authorised but not contracted for	<u>472,928</u>	<u>475,164</u>
	<u>508,028</u>	518,175
	<u>13,368,010</u>	<u>16,067,112</u>

(b) Investing commitments

As at 30 June, 2002, the Company was committed to make a capital contribution of approximately RMB126 million and RMB454 million respectively (as at 31 December, 2001: approximately RMB82 million and RMB304 million respectively) to jointly controlled entity and associated companies.

11 Related party transactions

Substantially all transactions undertaken by the Group during the period were effected on such terms as have been determined by the Civil Aviation Administration of China (the "CAAC") and other relevant PRC authorities. In addition, many of the involved counter parties were either regulated by or connected with such authorities.

Furthermore, the Group obtained various supplementary administrative and financial services provided by the Southern Airlines (Group) (the "SA Group"), the ultimate holding company, and its affiliates during the normal course of its business.

The following is a summary of significant recurring transactions carried out in the normal course of business between the Group, the SA Group, the CAAC and its affiliates during the period:

	For the six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
Expenses		
Handling charges	13,370	7,293
Jet fuel supplies	1,173,018	1,292,388
Aircraft insurance	128,958	36,109
Aircraft wet lease rentals	150,000	150,128
Guarantee fees	647	736
Ticket reservation service charges	54,643	46,762
Passenger departure and cargo handling charges	29,429	26,245
Aircraft and traffic servicing charges	819,807	759,213
Advertising expenses	2,695	5,062
Sundry aviation supplies	45,187	42,700
Commission expense	297,696	303,699
Air catering expense	14,432	10,783
Repairing charges	242,738	237,769
Contributions to retirement schemes	–	37,738
Post retirement medical and other welfare benefits	–	8,450
Housing benefits	42,500	42,500
Lease charges for land and buildings	7,612	7,612
Income		
Ground services income	15,096	11,347
Interest income	9,810	10,219
Commission income	44,569	45,019
	<u>44,569</u>	<u>45,019</u>

The Directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.



12 Contingent liabilities

There have been no material changes in contingent liabilities of the Group subsequent to 31 December, 2001.

13 Comparative figures

Certain comparative figures in the interim financial report have been reclassified to conform with the reclassification of land use rights (see Note 9).

14 Convenience translation

The unaudited consolidated profit and loss account has been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into Hong Kong dollars ("HK\$") and United States dollars ("US\$") solely for the convenience of readers have been made at the rates of HK\$1.00 to RMB1.0606 and US\$1.00 to RMB8.2771, being the average of the buying and selling rates as quoted by the People's Bank of China at the close of business on 30 June, 2002. No representation is made that the RMB amounts could have been or could be converted into HK\$ or US\$ at these rates or at any other certain rates on 30 June, 2002 or on any other date.



INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA SOUTHERN AIRLINES COMPANY LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report as set out on pages 11 to 23.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June, 2002.

KPMG

Certified Public Accountants

Hong Kong,
23 August, 2002