中国南方航空
CHINA SOUTHERN

China Southern Airlines Company Limited

Interim Report 2006

H Share Stock Code : 1055
A Share Stock Code : 600029
ADR Code : ZNH

All Shareholders:

The board of directors (the "Board") of China Southern Airlines Company Limited (the "Company") hereby announces the following unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2006.

INTRODUCTION

The Group is one of the largest airlines in the People's Republic of China (the "PRC") in terms of number of passengers carried, number of scheduled flights each week, number of hours flown, route networks and sise of aircraft fleet. The Group operates the most extensive route networks of all the Chinese airlines. At 30 June 2006, the Group operated an aggregate of 527 routes, of which 426 were domestic, 26 were Hong Kong and Macau, and 75 were international. For the six months ended 30 June 2006, the Group operated an average of 8,647 scheduled flights to 146 cities each week. At 30 June 2006, the Group operated a fleet of 264 aircraft, consisting primarily of Boeing 737 series, 747, 757, 777, Airbus 300, 319, 320, 330, McDonnell Douglas 82, 90 and etc. The average age of the fleet of the Group was 6.78 years.

BUSINESS REVIEW

During the reporting period, the cost pressure that the Group faced in its business operations did not ease, as jet fuel prices kept rising and the interest rates of US dollar denominated loans also climbed. The Group has taken a series of measures to cope with the pressure that these external factors have put on its business operations, including improving its operational management capability to reduce jet fuel consumption and refining its management methods to maintain a strict control on other operational costs.

Taking advantage of the continuing favourable macro-economic environment in the PRC, the Group has managed to raise its passenger load factor by increasing its carrying capacity, optimising its route networks, raising its aircraft utilisation rate, improving its service quality, and optimising its revenue management. Despite the intense competition in the market, passenger and cargo traffic volume, passenger load factor and income level of the Group had risen to various extents during the reporting period, resulting in a corresponding increase in the overall operating income of the Group. During the reporting period, the Group achieved a total traffic turnover of 3,708 million tonne-kilometres, representing an increase of 10.9% from same period last year; a passenger traffic volume of 22,686,000 passengers carried, representing an increase of 12.0% from same period last year; a cargo and mail traffic volume of 376,000 tonnes, representing an increase of 8.0% from same period last year; and a passenger load factor of 70.7%, representing an increase of 3.7% from same period last year. In the first half of the year, the Group received RMB20,604 million of operating revenue, representing an increase of 15.5% from same period last year, but it nevertheless suffered a loss attributable to equity shareholders of the Company of RMB825 million for the first half of 2006 due to escalating costs.

With a view to alleviating the burden imposed on the aviation industry by the ever-rising jet fuel prices, on 16 February 2006, the National Development and Reform Commission ("NDRC") and the Civil Aviation Administration of China ("CAAC") issued another notice that imposed fuel surcharges on domestic flights, expressly providing that the period for the imposition of fuel surcharges on domestic flights would be extended as long as jet fuel prices continued to rise. On 28 March 2006, NDRC and CAAC issued a further notice on the imposition of fuel surcharges on domestic flights, which increased the rate of fuel surcharges from RMB20 to RMB30 per passenger for a route of less than 800 kilometres and from RMB40 to RMB60 per passenger for a route of more than 800 kilometres, with the period tentatively set for the imposition of such surcharges from 10 April 2006 until 10 October 2006. The imposition of the fuel surcharges and the extension of the period for such imposition will help to ease the fuel cost burden on the Group.

Faced with the challenge of the globalisation of the aviation industry, the Group has sought cooperation with other international airlines in order to increase the competitiveness of the Group, improve its market development capability, promote the transformation of its flight network structure and achieve the effect of economies of scale for its business operations. With this end in mind, the Company and SkyTeam Alliance, one of the three largest airline alliances in the world, held a signing ceremony in Guangzhou on 28 June 2006, at which the parties executed the GAAAA (Global Airline Alliance Adherence Agreement) under which the Company undertakes to improve and optimise relevant products, service facilities and processes according to the operating standards and processes set by the Alliance. The execution of the agreement marked a critical step towards the final accession to SkyTeam Alliance taken by the Company, as it was the first Chinese airline to announce its intention to accede to a global airline alliance. The Company believes that its accession to SkyTeam Alliance will help to make up for the inadequacies of its international route networks and that it will be able to extend its flights to all parts of the world by using the international route networks of SkyTeam Alliance, thereby promoting the penetration of the Group into the global market and increasing its profitability.

For the period under review, the Group's total traffic revenue was RMB20,223 million, an increase of RMB2,780 million or 15.9% from the same period last year. Meanwhile, the Group's total traffic volume increased by 10.9% to 3,708 million RTKs. The aggregate utilisation rate of the Group's Boeing and Airbus aircraft was 9.53 hours per day for the period under review, an increase of 0.14 hours or 1.5% from the same period last year.

Passenger revenue for the period under review was RMB18,627 million, up 16.7% from the same period last year, representing 92.1% of the Group's total traffic revenue. Passenger traffic volume increased by 12.7% to 32,090 million RPKs.

Domestic passenger revenue was RMB15,279 million, up 17.9% from the same period last year. Domestic passenger revenue accounted for 82.0% of overall passenger revenue. Passenger capacity, in terms of ASKs, increased by 9.1% while passenger traffic volume, in terms of RPKs, increased by 13.3% from the same period last year, resulting in an increase in passenger load factor of 2.7 percentage points to 72.1%. The passenger yield per RPK increased by 3.6% from RMB0.55 to RMB0.57.

On Hong Kong and Macau routes, the Group recorded passenger revenue of RMB616 million, an increase of 2.8% from same period last year. Hong Kong and Macau passenger revenue accounted for 3.3% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 16.7% while passenger traffic volume, in terms of RPKs increased by 15.8% from the same period last year, resulting in a decrease in passenger load factor of 0.5 percentage points to 60.6%. The passenger yield per RPK decreased by 10.5% to RMB0.77, primarily as a result of the decrease in ticket fares caused by increased competition.

Passenger revenue for the Group's international routes amounted to RMB2,732 million, an increase of 13.30% from the same period last year. International passenger revenue accounted for 14.7% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 5.2% while passenger traffic volume, in terms of RPKs, increased by 8.7% from the same period last year, resulting in an increase in passenger load factor of 2.1 percentage points to 65.6%. The passenger yield per RPK increased by 3.6% to RMB0.58 mainly due to higher ticket price and the increase in traffic derived from short haul routes which generally had a higher yield than long haul routes.

Cargo and mail revenue was RMB1,596 million, an increase of 8.1% from the same period last year. Cargo and mail revenue accounted for 7.9% of total traffic revenue. Cargo and mail volume grew by 5.1% to 845 million RTKs from the same period last year, mainly due to the increase in traffic volume. The overall yield per cargo and mail tonne kilometre increased by 2.7% to RMB1.89, mainly attributable to increasing traffic demand.

Total operating expenses increased by 14.2% to RMB20,847 million from the same period last year, primarily due to the increases in fuel cost, landing and navigation fees and depreciation and amortisation resulting from the increase in traffic volume and fleet expansion during the period under review.

Flight operations expenses increased by 24.0% to RMB11,266 million from the same period last year. Of these expenses, fuel cost was RMB7,080 million, up 27.6% from the same period last year, mainly as a result of increases in fuel consumption and fuel prices. Aircraft operating lease charges increased by 19.8% to RMB1,418 million, mainly attributable to additional rental payments for new aircraft under operating leases. Air catering expenses increased by 11.2% to RMB598 million, primarily as a result of an increase in number of passengers carried during the period under review. Labour costs for flight personnel increased by 10.3% to RMB898 million, largely due to an increase in flying hours.

Maintenance expenses decreased by 24.3% to RMB1,757 million, due mainly to decrease in general repair during the period under review.

Aircraft and traffic servicing expenses increased by 11.1% to RMB2,843 million from the same period last year, reflecting primarily an increase in number of landing and takeoffs.

Promotion and sales expenses increased by 15.4% to RMB1,408 million from the same period last year, primarily as a result of an increase in traffic volume.

General and administrative expenses increased by 18.3% to RMB1,079 million from the same period last year, due mainly to an increase in the scale of operations.

As compared with the same period last year, depreciation and amortisation expenses increased by 17.3% to RMB2,456 million, reflecting primarily the effect of scheduled aircraft delivered during the second half of 2005 and the period under review.

Interest expense increased by 33.9% to RMB1,004 million in the period under review, primarily reflecting an increase in the balance of loan borrowings and the increase in LIBOR rate, while 59.1% of the Group total borrowings are subject to LIBOR rate.

The Group recorded a net exchange gain of RMB279 million, mainly resulted from Renminbi appreciation during the period under review. Such amount represents mainly unrealised translation exchange gain, resulting from exchange gains on translated period end foreign currency denominated liabilities, rather than on foreign exchange transactions incurred during the review period.

As a result of the aforementioned factors, for the six months ended 30 June 2006, the Group recorded a net loss attributable to equity shareholders of the Company of RMB825 million, as compared to a net loss attributable to equity shareholders of the Company of RMB907 million for the same period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2006, the Group's current liabilities exceeded its current assets by RMB29,896 million, which include current instalments of bank and other loans of RMB21,893 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain adequate external finance to meet its committed future capital expenditures. In preparing the interim financial report, the directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's short term obligations and capital expenditure requirements.

At 30 June 2006, the Group's borrowings totalled RMB48,142 million, an increase of RMB3,347 million from RMB44,795 million at 31 December 2005. The majority of such borrowings were denominated, to a large extent, in United States dollars and, to a smaller extent, in Japanese yen, Hong Kong dollars and Renminbi, with 34.9% of the total balance being fixed interest rate borrowings. Of such borrowings, RMB25,472 million, RMB5,734 million, RMB5,070 million, RMB2,186 million and RMB9,680 million will be repayable in the twelve months ending 30 June 2007, 2008, 2009, 2010, 2011 and thereafter respectively. At 30 June 2006, cash and cash equivalents of the Group totalled RMB4,405 million, an increase of RMB1,504 million from RMB2,901 million at 31 December 2005. Of such balance, 21.5% was denominated in foreign currencies. Net debts (total borrowings net of cash and cash equivalents) increased by 4.4% to RMB43,737 million from RMB41,894 million at 31 December 2005.

At 30 June 2006, total equity attributable to equity shareholders of the Company amounted to RMB9,175 million, a decrease of RMB825 million from RMB10,000 million at 31 December 2005, reflecting the loss attributable to equity shareholders of the Company recorded for the period under review.

Ratio of net debt to total equity of the Group at 30 June 2006 was 4.77 times, as compared to 4.19 times at 31 December 2005.

FINANCIAL RISK MANAGEMENT POLICY

The Group is exposed to fluctuations in foreign currencies and jet fuel prices. The Group's exposure to fluctuations in foreign currencies is a result of its debts which are denominated in foreign currencies. Depreciation or appreciation of the RMB against foreign currencies affects the Group's results significantly because the Group's foreign currency payments generally exceed its foreign currency receipts. The Group is not able to hedge its foreign currency exposure effectively other than by 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, by entering into forward foreign exchange contracts with certain authorised PRC banks. The Group is required to procure a majority of its jet fuel domestically at PRC spot market prices. There are currently no effective means available to manage the Group's exposure to the fluctuations in domestic jet fuel prices.

CHARGES ON ASSETS

At 30 June 2006, certain aircraft of the Group with an aggregate carrying value of approximately RMB29,567 million (31 December 2005: RMB30,408 million) were mortgaged under certain loan and lease agreements.

CAPITAL AND INVESTING COMMITMENTS

At 30 June 2006, the Group had capital commitments of approximately RMB45,890 million. Of such amounts, RMB43,212 million was related to the acquisition of aircraft and flight equipment and RMB1,034 million was related to the Group's facilities and equipment to be constructed and installed at the Guangzhou Baiyun International Airport and RMB1,644 million for other projects.

At 30 June 2006, the Group was committed to make capital contributions of approximately RMB83 million to a jointly controlled entity.

CONTINGENT LIABILITIES

There have been no material changes in the contingent liabilities of the Group since 31 December 2005.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

As none of the factors that affect its costs have improved, the Group is currently experiencing tough challenges in its business operations. The Group, however, believes that the most difficult time of an enterprise is also a special time of which it can take advantage for reorganising and strengthening itself. The Group will take the following series of measures to maintain a strict control on its costs and improve its efficiency:

1. To continue to make adjustments in the setup of its route networks so as to achieve a strategic shift from a point-to-point linear operational model to a hub-network operational model; to launch such service brands as "Online Check In" and "Free & Easy – Passion in China" by making new innovations; and to keep improving its services to attract passengers, all of which are aimed at improving the Company's profitability and increasing its income;

2. To continue to revitalise existing assets, to take full advantage of all the market opportunities and to dispose of surplus assets in an effective way in an attempt to improve its assets utilisation rates;

3. To actively explore ways to alleviate its cost pressure by taking advantage of such financial derivative products as jet fuel futures hedging and interest rate transactions;

4. To continue, as always, to maintain a strict control on its costs so as to improve its overall efficiency.

DIVIDENDS

The Board does not propose to declare an interim dividend for the year 2006.

STRUCTURE OF SHARE CAPITAL

At 30 June 2006, the share capital of the Company comprised 4,374,178,000 shares, of which approximately 50.30% or 2,200,000,000 State-owned Shares were held by China Southern Air Holding Company ("CSAHC"), approximately 22.86% or 1,000,000,000 A Shares were held by the PRC investors and approximately 26.84% or 1,174,178,000 H Shares were held by Hong Kong and overseas investors.

Category of Shares	**Number of shares held**	**Percentage to the total share capital** (%)
State-owned Shares (held by CSAHC)	2,200,000,000	50.30%
H Shares	1,174,178,000	26.84%
A Shares	1,000,000,000	22.86%
Total share capital	4,374,178,000	100.00%

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, to the knowledge of the directors, chief executive and supervisors of the Company, the interests and short positions of the following persons other than the directors, chief executives or supervisors in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") or otherwise persons who have an interest of 10% or more in the Company's shares are as follows:

Name of shareholder	Type of shareholding	Type of share	Number of shares held	% of the total issued H shares of the Company	% of the total issued share capital of the Company	Short position
CSAHC	Direct holding	Domestic share	2,200,000,000	–	50.30%	–
HKSCC Nominees Limited	Direct holding	H share	1,150,128,998	98.0%	26.29%	–

Notes:

Based on the information available to the Directors and Supervisors of the Company (including such information as was available on the website of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and so far as the Directors and Supervisors are aware, at 30 June 2006:

1. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, Li Ka-Shing Unity Trustcorp Limited had an interest in an aggregate of 193,877,000 H Shares of the Company (representing approximately 16.51% of its then total issued H Shares) in the capacity as beneficiary of a trust.

2. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, J.P. Morgan Fleming Asset Management Holdings Inc. had an interest in an aggregate of 70,912,000 H Shares of the Company (representing approximately 6.04% of its then total issued H Shares). According to the information as disclosed in the website of the Hong Kong Stock Exchange and so far as the Directors and Supervisors are aware, J.P. Morgan Fleming Asset Management Holdings Inc. held its interest in the Company in the following manners:

   (a) 70,162,000 H Shares, representing approximately 5.98% of the Company's then total issued H Shares, were held in the capacity as beneficial owner by JF Asset Management Limited, which was ultimately 100% held by J.P. Morgan Fleming Asset Management Holdings Inc.; and

   (b) 750,000 H Shares, representing approximately 0.06% of the Company's then total issued H Shares, were held in the capacity as investment manager by JF International Management Inc., which was approximately 99.99% held by J.P. Morgan Fleming Asset Management (Asia) Inc., which was ultimately 100% held by J.P. Morgan Fleming Asset Management Holdings Inc..

3. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, 70,658,800 H Shares of the Company, representing approximately 6.02% of its then total issued H Shares, were held in the capacity as beneficial owner by JPMorgan Chase Bank. JPMorgan Chase Bank was wholly-owned by J.P. Morgan Chase & Co..

4. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, Morgan Stanley International Incorporated had an interest in an aggregate of 111,121,932 H Shares of the Company (representing approximately 9.46% of its then total issued H Shares). According to the information as disclosed on the website of the Hong Kong Stock Exchange and so far as the Directors and Supervisors are aware, Morgan Stanley International Incorporated, held its interest in the Company in the following manner:

   (a) 743,332 H Shares, representing approximately 0.06% of the Company's then total issued H Shares, were held by Morgan Stanley Dean Witter Hong Kong Securities Limited, which was ultimately 100% held by Morgan Stanley Asia Pacific (Holdings) Limited, which, in turn, was 90% held by Morgan Stanley International Incorporated;

   (b) 108,670,000 H Shares, representing approximately 9.26% of the Company's then total issued H Shares, were held by Morgan Stanley Investment Management Company, which was ultimately 100% held by Morgan Stanley Asia Pacific (Holdings) Limited, which, in turn, was 90% held by Morgan Stanley International Incorporated;

(c) 292,600 H Shares, representing approximately 0.02% of the Company's then total issued H Shares, were held by Morgan Stanley Asset & Investment Trust Management Co. Limited, which was 100% held by Morgan Stanley International Incorporated;

(d) 714,000 H Shares, representing approximately 0.06% of the Company's then total issue H Shares, were held by Morgan Stanley & Co International Limited, which was ultimately 100% held by Morgan Stanley Group (Europe), which, in turn, was approximately 98.30% held by Morgan Stanley International Limited, which was 100% ultimately held by Morgan Stanley International Incorporated; and

(e) 702,000 H Shares, representing approximately 0.06% of the Company's then total issued H Shares, were held by Morgan Stanley Capital (Luxembourg) S.A., which was approximately 93.75% held by Morgan Stanley International Incorporated.

According to the information as disclosed on the website of the Hong Kong Stock Exchange and so far as the Directors and Supervisors are aware, at 30 June 2006, Morgan Stanley Dean Witter Hong Kong Securities Limited also had a short position in 616,000 H Shares of the Company (representing approximately 0.05% of its then total issued H Shares).

5. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, 96,938,500 H Shares, representing approximately 8.26% of the Company's then total issued H Shares, were held by Space Dragon Limited as beneficial owner, which was 100% held by Cheung Kong Investment Company Limited.

6. Among the 1,150,128,998 H Shares held by HKSCC Nominees Limited, 96,938,500 H Shares, representing approximately 8.26% of the Company's then total issued H Shares, were held by Choicewell Limited as beneficial owner, which was ultimately 100% held by Hutchison Whampoa Limited.

Save as disclosed above, at 30 June 2006, to the knowledge of the directors, chief executive and supervisors of the Company, no other person (other than the directors, chief executives or supervisors) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO or otherwise had an interest of 10% or more in the Company's shares.

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 2006.

INTERESTS OF THE DIRECTORS AND SUPERVISORS IN THE EQUITY OF THE COMPANY

At 30 June 2006, the interests and short positions of the directors, chief executive and supervisors in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to SFO (including interest or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of the Listed Companies" in Schedule 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

HUMAN RESOURCES

At 30 June 2006, the Group had an aggregate of 39,881 employees. The wages of the Group's employees consist of basic salaries and bonuses.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

At 30 June 2006, 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.

THE MODEL CODE

Having made specific enquiries with all the directors of the Company, the directors have for six months ended 30 June 2006 complied with the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules. The Company has not adopted a code of conduct less stringent than the "Model Code for Securities Transactions by Directors of Listed Issuers" regarding securities transactions of the directors.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Directors of the Company consider that, in the six months ended 30 June 2006, the Group was in compliance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

MATERIAL LITIGATION

During the period, the Company was not involved in any material litigation.

By order of the Board
Liu Shao Yong
Chairman of the Board

Guangzhou, the PRC
17 August 2006

DOCUMENTS AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION

Document available for inspection:	Original copy of the Company's 2006 interim report signed by the Chairman of the Board.
Address for Inspection:	The Company Secretary Office of the China Southern Airlines Company Limited, No. 278, Ji Chang Lu, Guangzhou, the People's Republic of China.
Website:	www.cs-air.com

OPERATING DATA SUMMARY

	Six months ended 30 June		**2006 vs 2005**	
	2006	2005	**Increase/ (decrease)**	(%)
Capacity				
Available seat kilometres (ASKs) (million)				
– Domestic	**36,924**	33,833	3,091	9.1
– Hong Kong and Macau	**1,328**	1,138	190	16.7
– International	**7,138**	6,782	356	5.2
Total	**45,390**	41,753	3,637	8.7

	Six months ended 30 June 2006	2005	2006 vs 2005 Increase/ (decrease)	(%)
Available tonne kilometres (ATKs) (million)				
– Domestic	**4,314**	3,885	429	11.0
– Hong Kong and Macau	**161**	127	34	26.8
– International	**1,418**	1,402	16	1.1
Total	**5,893**	5,414	479	8.8
Kilometres flown (thousand)	**278,044**	254,547	23,497	9.2
Hours flown (thousand)	**438**	400	38	9.5
Number of flight sectors				
– Domestic	**201,680**	184,974	16,706	9.0
– Hong Kong and Macau	**8,728**	8,364	364	4.4
– International	**14,412**	12,826	1,586	12.4
Total	**224,820**	206,164	18,656	9.0
Traffic				
Revenue passenger kilometres (RPKs) (million)				
– Domestic	**26,605**	23,479	3,126	13.3
– Hong Kong and Macau	**805**	695	110	15.8
– International	**4,680**	4,304	376	8.7
Total	**32,090**	28,478	3,612	12.7
Revenue tonne kilometres (RTKs) (million)				
– Domestic	**2,849**	2,524	325	12.9
– Hong Kong and Macau	**83**	69	14	20.3
– International	**776**	750	26	3.5
Total	**3,708**	3,343	365	10.9
Passenger tonne kilometres (million)				
– Domestic	**2,375**	2,094	281	13.4
– Hong Kong and Macau	**72**	62	10	16.1
– International	**416**	383	33	8.6
Total	**2,863**	2,539	324	12.8

	Six months ended 30 June 2006	2005	2006 vs 2005 Increase/ (decrease)	(%)
Cargo and mail tonne kilometres (million)				
– Domestic	**474**	430	44	10.2
– Hong Kong and Macau	**11**	7	4	57.1
– International	**360**	367	(7)	(1.9)
Total	**845**	804	41	5.1
Passengers carried (thousand)				
– Domestic	**20,294**	18,115	2,179	12.0
– Hong Kong and Macau	**792**	739	53	7.2
– International	**1,600**	1,405	195	13.9
Total	**22,686**	20,259	2,427	12.0
Cargo and mail carried (thousand tonne)				
– Domestic	**309**	285	24	8.4
– Hong Kong and Macau	**9**	8	1	12.5
– International	**58**	55	3	5.5
Total	**376**	348	28	8.0
Load factors				
Passenger load factor (RPK/ASK) (%)				
– Domestic	**72.1**	69.4	2.7	3.9
– Hong Kong and Macau	**60.6**	61.1	(0.5)	(0.8)
– International	**65.6**	63.5	2.1	3.3
Total	**70.7**	68.2	2.5	3.7
Average load factor (RTK/ATK) (%)				
– Domestic	**66.0**	65.0	1.0	1.5
– Hong Kong and Macau	**51.6**	54.3	(2.7)	(5.0)
– International	**54.7**	53.5	1.2	2.2
Total	**62.9**	61.7	1.2	1.9
Breakeven load factor (%)	**64.9**	64.6	0.3	0.5

	Six months ended 30 June 2006	2005	2006 vs 2005 Increase/ (decrease)	(%)
Yield				
Yield per RPK (RMB)				
– Domestic	**0.57**	0.55	0.02	3.6
– Hong Kong and Macau	**0.77**	0.86	(0.09)	(10.5)
– International	**0.58**	0.56	0.02	3.6
Total	**0.58**	0.56	0.02	3.6
Yield per cargo and mail tonne kilometre (RMB)	**1.89**	1.84	0.05	2.7
Yield per RTK (RMB)				
– Domestic	**5.62**	5.39	0.23	4.3
– Hong Kong and Macau	**8.12**	9.29	(1.17)	(12.6)
– International	**4.55**	4.28	0.27	6.3
Total	**5.45**	5.22	0.23	4.4
Fleet				
Number of aircraft in service at period end				
– Boeing	**143**	136	7	5.1
– Airbus	**85**	56	29	51.8
– McDonnell Douglas	**25**	36	(11)	(30.6)
– Embraer	**6**	6	–	–
– Others	**5**	8	(3)	(37.5)
Total	**264**	242	22	9.1
Aircraft utilisation rate (hours per day)	**9.53**	9.39	0.14	1.5
Financial				
Operating cost per ASK (RMB)	**0.46**	0.44	0.02	4.5
Operating cost per ATK (RMB)	**3.54**	3.37	0.17	5.0

The Board of Directors of the Company hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2006, together with the comparative figures for the corresponding period of 2005 as follows:

A. Prepared in accordance with International Financial Reporting Standards ("IFRSs")

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2006 RMB million**	2005 RMB million
Operating revenue			
Traffic revenue		**20,223**	17,443
Other operating revenue		**381**	401
Total operating revenue	*3*	**20,604**	17,844
Operating expenses			
Flight operations		**11,266**	9,084
Maintenance		**1,757**	2,320
Aircraft and traffic servicing		**2,843**	2,560
Promotion and sales		**1,408**	1,220
General and administrative		**1,079**	912
Depreciation and amortisation		**2,456**	2,094
Others		**38**	70
Total operating expenses		**20,847**	18,260
Operating loss		**(243)**	(416)
Non-operating income/(expenses)			
Interest income		**18**	17
Interest expense	*6*	**(1,004)**	(750)
Share of associates' results		**4**	(28)
Share of jointly controlled entities' results		**78**	24
Loss on sale of property, plant and equipment		**–**	(35)
Exchange gain, net		**279**	197
Others, net		**95**	(34)
Total net non-operating expenses		**(530)**	(609)
Loss before taxation		**(773)**	(1,025)
Income tax (expense)/benefit	*5*	**(11)**	61
Loss for the period	*6*	**(784)**	(964)
Attributable to:			
Equity shareholders of the Company		**(825)**	(907)
Minority interests		**41**	(57)
Loss for the period		**(784)**	(964)
Loss per share	*8*		
Basic		**RMB(0.19)**	RMB(0.21)
Diluted		**RMB(0.19)**	RMB(0.21)

The notes on pages 17 to 25 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2006 – unaudited

(Expressed in Renminbi)

	Note	**At 30 June 2006 RMB million**	At 31 December 2005 RMB million
Non-current assets			
Property, plant and equipment, net	*9*	**53,201**	54,266
Construction in progress		**753**	674
Lease prepayments		**348**	333
Interest in associates		**117**	142
Interest in jointly controlled entities		**883**	805
Other investments		**316**	320
Lease and equipment deposits		**8,972**	7,265
Deferred tax assets		**91**	74
Other assets		**274**	302
		64,955	64,181
Current assets			
Inventories		**1,475**	1,382
Trade receivables	*10*	**1,729**	1,518
Other receivables		**1,248**	956
Prepaid expenses and other current assets		**588**	380
Income tax recoverable		**5**	–
Amounts due from related companies		**74**	84
Cash and cash equivalents		**4,405**	2,901
		9,524	7,221
Current liabilities			
Bank and other loans	*11*	**21,893**	16,223
Obligations under finance leases		**3,579**	3,373
Trade and bills payables	*12*	**2,976**	3,929
Sales in advance of carriage		**1,589**	1,413
Income tax payable		**–**	28
Amounts due to related companies		**228**	116
Accrued expenses		**5,308**	4,250
Other liabilities		**3,847**	3,796
		39,420	33,128
Net current liabilities		**(29,896)**	(25,907)
Total assets less current liabilities		**35,059**	38,274

The notes on pages 17 to 25 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2006 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Non-current liabilities and deferred items			
Bank and other loans	*11*	**11,555**	12,740
Obligations under finance leases		**11,115**	12,459
Provision for major overhauls		**390**	301
Deferred credits		**500**	496
Deferred tax liabilities		**355**	342
		23,915	26,338
Net assets		**11,144**	11,936
Capital and reserves			
Share capital		**4,374**	4,374
Reserves	*13*	**4,801**	5,626
Total equity attributable to equity shareholders of the Company		**9,175**	10,000
Minority interests		**1,969**	1,936
Total equity		**11,144**	11,936

Approved and authorised for issue by the Board of Directors on 17 August 2006.

Liu Shao Yong	**Si Xian Min**	**Xu Jie Bo**
Director	*Director*	*Director*

The notes on pages 17 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 – unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings/ (accumulated loss)**	**Total**	**Minority interests**	**Total equity**
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2005	4,374	5,325	672	1,477	11,848	2,055	13,903
Loss for the period	–	–	–	(907)	(907)	(57)	(964)
Capital contributions from minority shareholders	–	–	–	–	–	12	12
Distributions to minority shareholders	–	–	–	–	–	(9)	(9)
At 30 June 2005	4,374	5,325	672	570	10,941	2,001	12,942
At 1 January 2006	4,374	5,325	691	(390)	10,000	1,936	11,936
(Loss)/profit for the period	–	–	–	(825)	(825)	41	(784)
Acquisition of equity interest held by minority shareholders	–	–	–	–	–	(6)	(6)
Distributions to minority shareholders	–	–	–	–	–	(2)	(2)
At 30 June 2006	**4,374**	**5,325**	**691**	**(1,215)**	**9,175**	**1,969**	**11,144**

The notes on pages 17 to 25 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
Net cash inflows from operating activities	**669**	1,662
Net cash used in investing activities	**(2,625)**	(692)
Net cash (outflows)/inflows before financing activities	**(1,956)**	970
Net cash inflows from financing activities	**3,460**	1,579
Increase in cash and cash equivalents	**1,504**	2,549
Cash and cash equivalents at 1 January	**2,901**	3,083
Cash and cash equivalents at 30 June	**4,405**	5,632

Cash and cash equivalents at 1 January and 30 June of both 2006 and 2005 represent cash at bank and in hand.

The notes on pages 17 to 25 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 (the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 17 August 2006.

At 30 June 2006, the Group's current liabilities exceeded its current assets by RMB29,896 million, which include current instalments of bank and other loans of RMB21,893 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain adequate external finance to meet its committed future capital expenditures. In preparing the interim financial report, the directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's short term obligations and capital expenditure requirements. Accordingly, the interim financial report has been prepared on the basis that the Group will be able to continue as a going concern.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2005 annual financial statements. Please refer to Note 2 for the discussion of new and revised International Financial Reporting Standards ("IFRSs") adopted by the Group in 2006.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2005 annual financial statements.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes 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 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include IAS and related interpretations.

The interim financial report 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 Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 26.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2005 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their audit report dated 19 April 2006.

2 New and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRSs for the year ending 31 December 2006, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRSs for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in this interim financial report for the periods presented.

3 Revenue and segment reporting

The Group operates principally as a single business segment for the provision of air transportation services. The Guangzhou Baiyun International Airport, in the People's Republic of China ("PRC"), is the main hub of the Group's route network and the location of its corporate headquarters.

Turnover comprises revenues from airline and airline-related business and is stated net of sales tax.

Geographic information about the Group's turnover and operating profit/(loss) are analysed as follows:

	Six months ended 30 June			
	Domestic	**Hong Kong and Macau**	**International**	**Total**
	RMB million	RMB million	RMB million	RMB million
2006				
Traffic revenue	16,017	674	3,532	20,223
Other operating revenue	381	–	–	381
Turnover	16,398	674	3,532	20,604
Operating profit/(loss)	266	(63)	(446)	(243)
2005				
Traffic revenue	13,592	641	3,210	17,443
Other operating revenue	401	–	–	401
Turnover	13,993	641	3,210	17,844
Operating profit/(loss)	(228)	28	(216)	(416)

4 Seasonality of operations

Owing to the summer holiday period in July and August, the Group on average experiences higher traffic demands in the second half of the year. As a result, the first half year typically reports lower revenues and results than the second half.

5 Income tax expense/(benefit)

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
PRC income tax	**5**	1
Deferred tax	**6**	(62)
Income tax expense/(benefit)	**11**	(61)

The statutory income tax rate in the PRC is 33%. Except for certain branches and subsidiaries, the Company and its subsidiaries are entitled to enjoy a preferential tax rate of 15% pursuant to approval documents issued by the relevant tax authorities.

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

6 Loss for the period

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
Loss for the period is arrived at after charging/(crediting):		
Interest expense		
Interest on loans from state-controlled banks	**597**	225
Interest on other bank loans	**239**	268
	836	493
Finance charges on obligations under finance leases	**272**	302
Less: borrowing costs capitalised	**(104)**	(45)
	1,004	750
Jet fuel costs*	**7,080**	5,549
Depreciation		
– Owned assets	**1,651**	1,603
– Assets acquired under finance leases	**811**	491
Amortisation of deferred credits	**(26)**	(22)
Other amortisation	**16**	30
Operating lease charges		
– Aircraft and flight equipment	**1,418**	1,184
– Land and buildings	**148**	134
Staff costs	**2,054**	1,776
Share of associates' taxation	**5**	(1)
Share of jointly controlled entities' taxation	**9**	(3)
Dividend income from unlisted securities	**(1)**	(8)
Net realised and unrealised gain on trading securities	**–**	(1)

* During the six months ended 30 June 2006, jet fuel cost paid to state-controlled fuel suppliers amounted to approximately RMB5,619 million (six months ended 30 June 2005: RMB4,336 million).

7 Dividends

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

8 Loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB825 million (six months ended 30 June 2005: RMB907 million) and the weighted average number of shares in issue during the period of 4,374 million (six months ended 30 June 2005: 4,374 million).

The amount of diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares in existence during both the current and prior periods.

9 Property, plant and equipment, net

During the six months ended 30 June 2006, the Group acquired aircraft with an aggregate cost of RMB395 million (six months ended 30 June 2005: RMB5,168 million).

10 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 impairment losses for bad and doubtful debts, is set out below:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Within 1 month	**1,551**	1,366
More than 1 month but less than 3 months	**143**	137
More than 3 months but less than 12 months	**34**	14
More than 12 months	**1**	1
	1,729	1,518

11 Bank and other loans

Bank and other loans are analysed as follows:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Non-interest bearing and unsecured		
Other loan	**3**	3
Interest bearing and secured		
Loans from state-controlled banks	**5,895**	5,804
Other bank loans	**2,713**	2,998
	8,608	8,802
Interest bearing and unsecured		
Loans from state-controlled banks	**22,143**	16,706
Other bank loans	**2,694**	3,452
	24,837	20,158
Total bank and other loans	**33,448**	28,963
Less: loans due within one year classified as current liabilities	**(21,893)**	(16,223)
	11,555	12,740

12 Trade and bills payables

The ageing analysis of trade and bills payables as of the balance sheet date is as follows:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Within 1 month	**1,236**	2,000
More than 1 month but less than 3 months	**484**	1,225
More than 3 months but less than 6 months	**1,256**	704
	2,976	3,929

13 Reserves

No transfer to statutory reserves has been made during the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

14 Commitments

(a) Capital commitments

At 30 June 2006, the Group had capital commitments as follows:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Commitments in respect of aircraft and flight equipment		
– authorised and contracted for	**43,212**	45,628
Commitments in respect of investments in the Guangzhou new airport		
– authorised and contracted for	**79**	79
– authorised but not contracted for	**955**	761
	1,034	840
Other commitments		
– authorised and contracted for	**9**	11
– authorised but not contracted for	**1,635**	1,324
	1,644	1,335
	45,890	47,803

(b) Investing commitments

At 30 June 2006, the Group was committed to make capital contributions of RMB83 million (31 December 2005: RMB83 million) to a jointly controlled entity.

15 Related party transactions

(a) Transactions with state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those disclosed in this interim financial report, transactions with other state-controlled entities include but are not limited to the following:

– Transportation services
– Leasing arrangements
– Purchase of equipment
– Purchase of ancillary materials and spare parts
– Ancillary and social services; and
– Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that, except for the disclosures contained in this interim financial report, there are no transactions with other state-controlled entities that require disclosure as related party transactions.

15 Related party transactions (continued)

(b) Transactions with China Southern Air Holding Company ("CSAHC") and its affiliates, and associates and jointly controlled entities of the Group

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
Expenses to CSAHC and its affiliates		
Handling charges	**14**	23
Air catering supplies	**90**	87
Commission expense	**21**	18
Sundry aviation supplies	**29**	35
Lease charges for aircraft	**–**	5
Lease charges for land and buildings	**45**	28
Property management fee	**9**	–
Expenses to associates and jointly controlled entities		
Repairing charges	**617**	506
Flight simulation service charges	**73**	59
Ground service charges	**24**	16
Interest expense	**6**	29
Income from associates and jointly controlled entities		
Rental income	**16**	15
Interest income	**3**	3

(c) Loans from and deposits placed with China Southern Airlines Group Finance Company Limited ("SA Finance") (a PRC authorised financial institution controlled by CSAHC and an associate of the Group)

At 30 June 2006, loans from SA Finance amounted to RMB300 million (31 December 2005: RMB300 million). The loans are unsecured, bear interest at floating rates at interest rates as published by the People's Bank of China ("PBOC") and are repayable within one year. The loans are guaranteed by CSAHC (included in the amount as disclosed in Note (d) below).

At 30 June 2006, the Group's deposits with SA Finance amounted to RMB899 million (31 December 2005: RMB544 million). The applicable interest rates were determined in accordance with the rates published by the PBOC.

15 Related party transactions (continued)

(d) Guarantees from CSAHC and SA Finance

Certain bank loans were guaranteed by the following parties:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
CSAHC	**1,815**	1,908
SA Finance	**6**	6

(e) Balances with CSAHC and its affiliates, and associates and jointly controlled entities of the Group

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Receivables		
An associate	**15**	–
Jointly controlled entities	**59**	84
An affiliate of CSAHC	**90**	42
Payables		
An associate	**–**	5
CSAHC and its affiliates	**213**	871
Jointly controlled entities	**15**	99

Amounts due from/to CSAHC and its affiliates, and associates and jointly controlled entities of the Group are unsecured, interest free and repayable on demand.

(f) Key management personnel remuneration

Key management personnel receive compensation in the form of fees, salaries, allowances, benefits in kind, discretionary bonuses and retirement scheme contributions. Key management personnel received total compensation of RMB2,112,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB2,841,000). Such remuneration is included in "staff costs" as disclosed in Note 6.

(g) Contributions to post-employment benefit plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff.

16 Contingent liabilities

There have been no material changes in contingent liabilities of the Group subsequent to 31 December 2005, details of which are disclosed in its 2005 annual financial statements.

17 Post balance sheet event

On 6 July 2006, the Group entered into a purchase agreement with Airbus SNC for the purchase of 50 Airbus 320 series aircraft, scheduled for deliveries in 2009 to 2010.

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 set out on pages 12 to 25.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Institute of Certified Public 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 2006.

KPMG
Certified Public Accountants

Hong Kong, China
17 August 2006

B. Prepared in accordance with PRC Accounting Rules and Regulations ("PRC GAAP")

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June 2006 RMB million	2005 RMB million
Revenue from principal operations	**21,024**	18,053
Less: Cost of principal operations	**18,255**	15,924
Business taxes and surcharges	**552**	518
Profit from principal operations	**2,217**	1,611
Add: Profit from other operations	**112**	240
Less: Selling expenses	**1,495**	1,290
Administrative expenses	**981**	862
Financial expenses	**750**	583
Operating profit/(loss)	**(897)**	(884)
Add: Investment income/(loss)	**(5)**	(10)
Subsidy income	**71**	–
Non-operating income	**93**	23
Less: Non-operating expenses	**8**	57
Profit/(loss) before income tax	**(746)**	(928)
Less: Income tax	**27**	(57)
Minority interests	**62**	(28)
Net profit/(loss)	**(835)**	(843)
Add: Retained profits/(accumulated losses) at the beginning of the period	**(1,007)**	806
Retained profits/(accumulated losses) at the end of the period	**(1,842)**	(37)

CONSOLIDATED BALANCE SHEET

At 30 June 2006 – unaudited

(Expressed in Renminbi)

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Assets		
Current assets		
Cash at bank and on hand	**4,574**	3,130
Dividends receivable	**15**	4
Trade receivables	**1,969**	1,698
Other receivables	**1,293**	994
Advance payments	**331**	144
Inventories	**1,570**	1,476
Prepaid expenses	**550**	350
Total current assets	**10,302**	7,796
Long-term equity investments	**516**	551
Fixed assets		
Fixed assets, at cost	**74,131**	73,112
Less: Accumulated depreciation	**20,005**	17,864
Net book value of fixed assets	**54,126**	55,248
Construction in progress	**819**	726
Total fixed assets	**54,945**	55,974
Intangible assets and other assets		
Lease and equipment deposits	**8,972**	7,266
Intangible assets	**581**	580
Long-term deferred expenditure	**32**	36
Long-term receivables	**16**	16
Total intangible assets and other assets	**9,601**	7,898
Deferred taxation		
Deferred tax assets	**100**	85
Total assets	**75,464**	72,304

CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2006 – unaudited

(Expressed in Renminbi)

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	**18,396**	14,478
Bills payable	**756**	896
Trade payables	**2,477**	3,223
Sales in advance of carriage	**1,589**	1,413
Wages payable	**95**	142
Staff welfare payable	**67**	73
Taxes payable	**350**	402
Other compulsory payables	**701**	736
Other payables	**3,198**	2,903
Accrued expenses	**4,889**	3,848
Long-term liabilities due within one year	**7,192**	5,240
Total current liabilities	**39,710**	33,354
Long-term liabilities		
Long-term loans	**11,963**	13,130
Obligations under finance leases	**11,094**	12,418
Provision for major overhauls	**390**	315
Deferred credits	**642**	655
Total long-term liabilities	**24,089**	26,518
Deferred taxation		
Deferred tax liabilities	**354**	340
Total liabilities	**64,153**	60,212
Minority interests	**2,193**	2,141
Shareholders' equity		
Share capital	**4,374**	4,374
Capital reserve	**5,895**	5,893
Surplus reserves	**691**	691
Including: Statutory public welfare fund	–	198
Retained profits/(accumulated losses)	**(1,842)**	(1,007)
Total shareholders' equity	**9,118**	9,951
Total liabilities and shareholders' equity	**75,464**	72,304

Notes:

1 Principal accounting policies

The principal accounting policies adopted by the Group in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises and the "Accounting Regulations for Business Enterprises" issued by the Ministry of Finance ("MOF") of the PRC, "Accounting Method for Civil Aviation Enterprises" and other relevant regulations which are as follows:

(a) *Accounting year*

The accounting year of the Group is from 1 January to 31 December.

(b) *Basis of consolidation*

The consolidated financial statements have been prepared in accordance with "Accounting Regulations for Business Enterprises" and Cai Kuai Zi【1995】No. 11 "Provisional regulations on consolidated financial statements" issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities in which the Company has more than 50% (not included 50%) equity interest or those entities controlled by the Company although the Company does not have more than 50% equity interest in these entities. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when the Company has more than 50% equity interest, or when the Company does not have more than 50% equity interest, but has control over those entities. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operations are not significant and have no significant effect on the Group's consolidated financial statements, the Company does not consolidate these subsidiaries. They are accounted for under long-term equity investments.

Where the accounting policies adopted by subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant intercompany balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

For those jointly controlled entities which the Company has joint control with other investors under contractual arrangements, the Company consolidates their assets, liabilities, revenues, costs and expenses in the consolidated financial statements based on the proportionate consolidation method according to its percentage of equity interest holding in those entities.

(c) *Basis of preparation*

The financial statements have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) *Reporting currency*

The Group's reporting currency is the Renminbi.

1 Principal accounting policies (Continued)

(e) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 1(j)) below, are dealt with in the income statement.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

(g) Provision for bad and doubtful debts

The provision for bad debts losses is estimated by the Group based on individual accounts receivable which show signs of uncollectibility and an ageing analysis. Provision for other receivables is determined based on their specific nature and the Group's estimate of their collectibility.

(h) Inventories

Inventories, which consist primarily of expendable spare parts and consumables, are carried at the lower of cost and net realisable value. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realisable value of each class of inventories is recognised as a provision for diminution in value of inventories. Net realisable value is determined based on amount recoverable in the normal course of business after the balance sheet date or estimates made by management based on market conditions.

Inventories are recorded using the perpetual inventory method.

Consumables are amortised in full when issued for use.

(i) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the investors' equity in the investee enterprise.

Equity investment difference, which is the difference between the initial investment cost and the Company's share of investors' equity in the investee enterprise, is accounted for as follows:

– Any excess of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

1 Principal accounting policies (Continued)

(i) Long-term equity investments (Continued)

– If an investment was acquired before the MOF's issuance of the "Questions and Answers on Implementing Accounting Regulations for Business Enterprises and Related Accounting Standards (II)" (Cai Kuai【2003】No. 10), any shortfall of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis over the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end. Such shortfalls are recognised in the "Capital surplus – reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai【2003】No. 10.

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

The Group makes provision for impairment losses on long-term equity investments (see note 1(n)).

(j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Group for use in the supply of services and administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 1(n)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 1(n)). The revalued amount refers to the amount adjusted to value of fixed assets based on the valuation amounts in accordance with the relevant rules and regulations.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended uses are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Pursuant to an approval document Cai Kuai Han【2004】No. 39 "Reply from MOF relating to Agreement on Selection of China Southern Airlines as Pilot Site for Fixed Assets Management of High Value Rotables" issued by the MOF, the Group accounts for high value rotables as fixed assets.

1 **Principal accounting policies** (Continued)

(j) Fixed assets and construction in progress (Continued)

Fixed assets of the Group are depreciated using the straight-line method over their estimated useful lives. The respective annual depreciation rates for fixed assets are as follows:

	Annual depreciation rate
Owned and finance leased aircraft	4.75%-6.33%
Other flight equipment	
– Jet engines	4.75%-6.33%
– Others, including high value rotables	6.47%-12.50%
Buildings	3.23%-4.85%
Machinery and equipment	9.70%-19.40%
Motor vehicles	16.17%

Land use rights are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 1(n)), and are amortised on a straight-line basis over the period of land use rights.

(k) Leased assets

A lease can be classified as a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, whether or not the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(i) Assets acquired under finance leases

The Group's flight equipment acquired by way of finance leases are stated under fixed assets at an amount equal to the lower of their original carrying amount in the books of the legal owner (the lessor) and the present value of the minimum lease payments at the inception of the lease. Depreciation of leased assets is calculated using the straight-line method. Subsequent to the revaluation, which was based on depreciated replacement costs, leased assets are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

If there is no reasonable certainty that the Group will obtain ownership of the leased assets at the end of the lease term, the leased assets are depreciated over the shorter of the lease term or their estimated useful lives. If there is reasonable certainty that the Group will obtain ownership of the leased assets at the end of the lease term, the leased assets are depreciated over their estimated useful lives.

At the inception of the lease, the minimum lease payments are recorded as payables under finance leases. The difference between the value of the leased assets and the minimum lease payments is recognised as unrecognised finance charges under finance leases. At the period end, payables under finance leases are netted against the unrecognised finance charges under finance leases and included in long-term payables in the balance sheet or long-term liabilities due within one year.

Unrecognised finance charges under finance leases are amortised using an effective interest rate method over the lease term.

The Group makes provision for impairment losses on assets acquired under finance leases (see note 1(n)).

1 Principal accounting policies (Continued)

(k) Leased assets (Continued)

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and are depreciated in accordance with the Group's depreciation policies, as set out in note 1(j). Impairment losses are provided for in accordance with the accounting policy set out in note 1(n). Revenue derived from operating leases is recognised in the income statement using the straight-line method over the lease term.

(iii) Operating lease charges

Rental payments under operating leases are recognised as expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

(l) Intangible assets

Intangible assets are stated in the balance sheet at cost or revalued amount less accumulated amortisation and impairment losses (see note 1(n)). The cost of the intangible assets is amortised on a straight-line basis over the contracted beneficial period or the effective period stipulated by law, whichever is shorter. Where the useful life is not stipulated by the contract or law, the amortisation is over a period of 10 years.

(m) Long-term deferred expenses

Custom duties and other direct costs incurred in relation to modifying, introducing and certifying certain operating leased aircraft are deferred and amortised on a straight-line basis over the terms of the related leases.

(n) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, lease and equipment deposit, intangible assets and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the higher of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a shortfall of the initial investment cost over the Group's share of the investors' equity of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to the capital reserve.

1 Principal accounting policies (Continued)

(o) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises current tax paid and payable and movement of deferred tax assets and liabilities.

Current tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(p) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(q) Revenue recognition

When it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Passenger, cargo and mail revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage;

(ii) Revenues from airline-related businesses are recognised when the relevant services are rendered;

(iii) Interest income is recognised on a time proportion basis according to the principal outstanding and the applicable rate;

(iv) Dividend income is recognised when the Group's right to receive the dividend is established; and

(v) Subsidy income is recognised in the income statement upon receipt of the subsidy.

(r) Traffic commissions

Traffic commissions are expensed when the transportation is provided and the related revenue is recognised. Traffic commissions for transportation not yet provided are recorded on the balance sheet as prepaid expense.

1 Principal accounting policies (Continued)

(s) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(t) Repairs and maintenance expenses

Routine repair and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred. In respect of aircraft held under operating leases, a provision is made over the lease term for the estimated cost of overhauls that are required to be performed on the related aircraft prior to their return to the lessors.

(u) Dividends appropriation

Cash dividends appropriated to shareholders are recognised in the income statement and profit appropriation statement when approved. Cash dividend approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are separately disclosed in the shareholders' equity in the balance sheet.

(v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined certain defined contribution retirement schemes for the employees arranged by the governmental organisations. The Group makes contributions to the retirement schemes at the applicable rates based on the employees' salaries. The contributions are charged to the income statement on an accrual basis. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

(w) Frequent flyer award programmes

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and Egret Mileage Plus, which provide travel awards to members based on accumulated mileage. The estimated incremental cost to provide free travel is recognised as an expense and accrued as a current liability as members accumulate mileage. As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly, to reflect the acquittal of the outstanding obligations.

Revenue from mileage sales to third parties under the frequent flyer award programmes is recognised when the related transportation services are provided.

(x) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

2 Effects of significant differences between financial statements prepared in accordance with PRC GAAP and IFRSs

Effects of significant differences between PRC GAAP and IFRSs on net loss are analysed as follows:

	Note	Six months ended 30 June 2006 RMB million	Six months ended 30 June 2005 RMB million
Net profit/(loss) in financial statements prepared under PRC GAAP		**(835)**	(843)
Adjustments:			
Gains on aircraft sales and leaseback transactions	*(a)*	**(16)**	(15)
Losses on staff housing allocations	*(b)*	**(13)**	(13)
Major overhaul	*(c)*	**49**	–
Revaluation of land use right	*(d)*	**2**	2
Interest in associate	*(e)*	**(1)**	(52)
Interest capitalisation	*(f)*	**(11)**	–
Government grant	*(g)*	**–**	12
Effect of minority interests of the above adjustments		**(3)**	–
Taxation effect of the above adjustments		**3**	2
Net loss attributable to equity shareholders of the Company in financial statements prepared under IFRSs		**(825)**	(907)

Effects of significant differences between PRC GAAP and IFRSs on shareholders' equity are analysed as follows:

	Note	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Shareholders' equity in financial statements prepared under PRC GAAP		**9,118**	9,951
Adjustments:			
Gains on aircraft sales and leaseback transactions	*(a)*	**144**	160
Losses on staff housing allocations	*(b)*	**158**	171
Major overhaul	*(c)*	**49**	–
Revaluation of land use right	*(d)*	**(156)**	(158)
Interest in associate	*(e)*	**(95)**	(94)
Interest capitalisation	*(f)*	**–**	11
Government grant	*(g)*	**(41)**	(39)
Effect of minority interests of the above adjustments		**(3)**	–
Taxation effect of the above adjustments		**1**	(2)
Total equity attributable to equity shareholders of the Company in financial statements prepared under IFRSs		**9,175**	10,000

Notes:

(a) In accordance with PRC GAAP, gains on aircraft sales and leaseback transactions are recorded as deferred credits and amortised over the lease terms on a straight line basis. Under IFRSs, gains on sales and leaseback transactions where the subsequent lease is an operating lease are recognised as income immediately, if the transactions are established at fair value. Differences between the sale price and fair value are deferred and amortised over the lease term.

(b) In accordance with PRC GAAP, losses on staff housing allocations executed by CSAHC on the Company's behalf and the lump sum housing benefits are charged to retained profits as of 1 January 2001 pursuant to the relevant regulations. Under IFRSs, losses on staff housing allocations and lump sum housing benefits are charged to the income statement in the obligatory periods stipulated by the relevant contracts.

(c) In accordance with PRC GAAP, major overhaul costs on owned and finance leased aircraft and engines are recognised in the income statement when incurred. Under IFRSs, major overhaul costs on owned and finance leased aircraft and engines are capitalised and depreciated over the expected overhaul periods on a straight-line basis.

(d) In accordance with PRC GAAP, land use rights are carried at revalued amounts. Under IFRSs, land use rights are carried at cost with effect from 1 January 2002. Accordingly, the unamortised surplus on revaluation of the land use rights was reversed against shareholders' equity.

(e) The accounting policies of certain associates differ from those of the Group. In the IFRS financial statements, the differences arising from the different accounting policies of the associate have been adjusted to conform to the accounting policies of the Group.

(f) In accordance with PRC GAAP, interests incurred on specific borrowings obtained for construction of fixed assets during the period of time to get ready the related assets for their intended uses are capitalised as cost of constructed fixed assets. Under IFRSs, in addition to the interest incurred on specific borrowings, interests incurred on general borrowings which are directly attributable to construction of fixed assets during the period of time to get ready the related assets for their intended uses are capitalised as cost of constructed fixed assets.

(g) In accordance with PRC GAAP, government grants should be credited to capital reserve. Under IFRSs, government grants relating to purchase of property, plant and equipment are offset against the cost of assets when utilised; other government grants are charged to the income statement when received.