CHINA SOUTHERN AIRLINES CO LTD
Form 6-K
June 02, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of May, 2005

CHINA SOUTHERN AIRLINES COMPANY LIMITED
(Translation of registrant's name into English)

Baiyun International Airport
Guangzhou, People's Republic of China
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.)

Form 20-F. X Form 40-F. ____

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes. ____ No. X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________.)

China Southern Airlines Company Limited (the "Company") on May 30, 2005 distributed its Circular regarding a major transaction and a very substantial acquisition of the Company, together with the Supplemental Form of Proxy for Annual General Meeting, in English and Chinese to its shareholders. A copy of each of the documents is included in this Form 6-K of the Company.

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

IF YOU ARE IN ANY DOUBT as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

IF YOU HAVE SOLD OR TRANSFERRED all your shares of China Southern Airlines Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

[LOGO] [CHINESE CHARACTERS]

CHINA SOUTHERN AIRLINES COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(STOCK CODE: 1055)

MAJOR TRANSACTION

AND

VERY SUBSTANTIAL ACQUISITION

A supplemental notice of the 2004 annual general meeting of China Southern Airlines Company Limited (the "Company") to be held at the headquarters of the Company at No. 278, Ji Chang Road, Guangzhou, Guangdong Province, the People's Republic of China on 15 June, 2005 at 9:00 a.m. is set out on pages 82 to 84 of this circular. If you are not able to attend and/or vote at the annual general meeting, you are strongly urged to complete the accompanying supplemental form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the annual general meeting or any adjournment thereof. Completion and return of the supplemental form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

27 May, 2005

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"AGM"	the annual general meeting of the Company to be held on 15 June, 2005 to approve, among other things, the Airbus Aircraft Acquisition Agreement, the Boeing Aircraft Acquisition Agreement and the Transactions
"Airbus"	Airbus SNC, a company incorporated in Toulouse
"Airbus Aircraft"	five new A380 aircraft
"Airbus Aircraft Acquisition Agreement"	the aircraft acquisition agreement dated 21 April, 2005 pursuant to which the Company and SAIETC agreed to acquire and Airbus agreed to sell the Airbus Aircraft
"Airbus Transaction"	the acquisition of Airbus Aircraft under the Airbus Aircraft Acquisition Agreement
"ATK"	available tonne kilometre
"Board"	the board of Directors
"Boeing"	The Boeing Company, a company incorporated in the State of Delaware of the United States of America
"Boeing Aircraft"	12 new B737-700 aircraft and 33 new B737-800 aircraft
"Boeing Aircraft Acquisition	the aircraft acquisition agreement dated 29 April, 2005

Agreement"	pursuant to which the Company and Xiamen Airlines have agreed to acquire and Boeing has agreed to sell the Boeing Aircraft
"Boeing Transaction"	the acquisition of Boeing Aircraft under the Boeing Aircraft Acquisition Agreement
"Company"	China Southern Airlines Company Limited, a joint stock company incorporated in the PRC with limited liability and the H shares of which are listed on the Stock Exchange
"CSAHC"	China Southern Air Holding Company
"Director(s)"	director(s) of the Company

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	20 May, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China (other than, for the purpose of this circular only, Hong Kong, Macau and Taiwan)
"SAIETC	Southern Airlines (Group) Import and Export Trading Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	supervisor(s) of the Company
"Transactions"	the Airbus Transaction and the Boeing Transaction
"Xiamen Airlines"	Xiamen Airlines Company Limited, a limited liability

company incorporated in the PRC and a subsidiary (as defined in the Listing Rules) of the Company

LETTER FROM THE BOARD

[LOGO] [CHINESE CHARACTERS]

CHINA SOUTHERN AIRLINES COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(STOCK CODE: 1055)

DIRECTORS:

EXECUTIVE DIRECTORS
Liu Shao Yong (Chairman of the Board of Directors)
Liu Ming Qi (Vice Chairman of the Board of Directors)
Peng An Fa (Director)
Wang Quan Hua (Director)
Zhao Liu An (Director)
Zhou Yong Qian (Director)
Si Xian Min (Director, President)
Zhou Yong Jin (Director)
Xu Jie Bo (Director, Chief Financial Officer, Vice President)
Wu Rong Nan (Director)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Simon To
Peter Lok
Wei Ming Hai
Wang Zhi
Sui Guang Jun

SUPERVISORS
Sun Xiao Yi (Chairman of the Supervisory Committee)
Yang Guang Hua (Supervisor)
Yang Yi Hua (Supervisor)

REGISTERED ADDRESS:
Guangzhou Economic and Technology Development Zone
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:
Unit B1, 9th Floor
United Centre
95 Queensway
Hong Kong

27 May, 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
AND

VERY SUBSTANTIAL ACQUISITION

1. INTRODUCTION

On 21 April, 2005, the Board announced that on the same date, the Company entered into the Airbus Aircraft Acquisition Agreement with Airbus and SAIETC for the purpose of acquiring five A380 aircraft from Airbus.

The Airbus Transaction constitutes a major transaction of the Company under the Listing Rules.

On 10 May, 2005, the Board announced that, with the approval of the Board, the Company and Xiamen Airlines entered into the Boeing Aircraft Acquisition Agreement with Boeing for the purpose of acquiring 12 B737-700 aircraft and 33 B737-800 aircraft (15 of which are bought by Xiamen Airlines) on 29 April, 2005.

The Boeing Transaction constitutes a very substantial acquisition of the Company under the Listing Rules.

The purpose of this circular is to set out further details of the Transactions.

2. THE AIRBUS AIRCRAFT ACQUISITION AGREEMENT

(1) DATE

21 April, 2005

(2) PARTIES

(a) The Company, as the purchaser. The principal business activity of the Company is that of civil aviation.

(b) Southern Airlines (Group) Import and Export Trading Company as the import agent. The principal business activity of SAIETC is that of the import and export of aircraft and aviation equipment. SAIETC is wholly owned by CSAHC, the controlling shareholder of the Company, holding approximately 50.30% equity interest in the Company as of the Latest Practicable Date. SAIETC is therefore a connected person of the Company under the Listing Rules.

(c) Airbus SNC, a company incorporated in Toulouse, as the vendor. The principal business activity of Airbus is that of aircraft manufacturing. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of Airbus and its ultimate beneficial owner is a third party independent of the Company and the connected persons (as defined in the Listing Rules) of the Company, and is not a connected person of the Company.

(3) AIRCRAFT TO BE ACQUIRED

Five new Airbus A380 aircraft.

(4) CONSIDERATION

According to the information provided by Airbus, the market price of an A380 aircraft is approximately US$272.6 million. The aggregate consideration for the Airbus Aircraft, which is payable wholly in cash by the Company to Airbus and determined after arm's length negotiation between the parties, is lower than the market price as provided by Airbus.

No consideration is payable under the Airbus Aircraft Acquisition Agreement by the Company to SAIETC.

(5) PAYMENT AND DELIVERY TERMS

The aggregate consideration for the acquisition of Airbus Aircraft is payable by cash in instalments. The Airbus Aircraft will be delivered in stages to the Company through the years 2007 to 2010.

(6) FUNDING

The Airbus Transaction will be wholly funded through commercial loans by commercial banks. Such commercial banks are not and will not be connected persons (as defined in the Listing Rules) of the Company. As of the date hereof, the Company has not entered into any agreement with any of these commercial banks for financing the Airbus Transaction.

(7) REASONS FOR THE AIRBUS TRANSACTION

As stated in the announcement of the Company dated 21 April, 2005, the Directors believe that the acquisition of the Airbus Aircraft will further improve the operating capacity of the Company, enhance its abilities to provide premium services to its customers, and raise its ability to compete significantly in the industry. Therefore, the Directors believe that the terms of the Airbus Aircraft Acquisition Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(8) IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratio for the Airbus Transaction with regards to the Consideration Test under Rule 14.07 of the Listing Rules is above 25%, but less than 100%, the Airbus Transaction constitutes a major transaction under the Listing Rules and is therefore subject to approval by the Company's shareholders under Rule 14.40 of the Listing Rules.

CSAHC and its associates are required to abstain from voting in respect of the proposed resolution to approve the Airbus Transaction.

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3. THE BOEING AIRCRAFT ACQUISITION AGREEMENT

(1) DATE

29 April, 2005

(2) PARTIES

(a) The Company, as the purchaser. The principal business activity of the Company is that of civil aviation.

(b) Xiamen Airlines Company Limited, as the purchaser. The principal business activity of Xiamen Airlines is that of civil aviation. Under the Listing Rules, Xiamen Airlines is a subsidiary of the Company.

(c) The Boeing Company, a company incorporated in the State of Delaware of the United States of America, as the vendor. The principal business activity of Boeing is that of aircraft manufacturing. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of Boeing and its ultimate beneficial owners is a third party independent of the Company and the connected persons (as defined in the Listing Rules) of the Company, and is not a connected person of the Company.

(3) AIRCRAFT TO BE ACQUIRED BY THE COMPANY

12 new B737-700 aircraft and 18 new B737-800 aircraft.

(4) AIRCRAFT TO BE ACQUIRED BY XIAMEN AIRLINES

15 new B737-800 aircraft.

(5) CONSIDERATION

According to the information provided by Boeing, the market price of a B737-700 aircraft is in the range of US$50.5 million to US$59 million, and the market price of a B737-800 aircraft is in the range of US$61.5 million to US$69.5 million. The aggregate consideration for the Boeing Aircraft, which is payable wholly in cash and determined after arm's length negotiation between the parties, is lower than the market price as provided by Boeing.

(6) PAYMENT AND DELIVERY TERMS

The aggregate consideration for the acquisition of Boeing Aircraft is payable by cash in instalments. The Boeing Aircraft will be delivered in stages to the Company and Xiamen Airlines through the years 2006 to 2008.

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(7) FUNDING

The Boeing Transaction will be wholly funded through commercial loans by commercial banks. Such commercial banks are not and will not be connected persons (as defined in the Listing Rules) of the Company. As of the date hereof, neither the Company nor Xiamen Airlines has entered into any agreement with any of these commercial banks for financing the Boeing Transaction.

(8) REASONS FOR THE BOEING TRANSACTION

As stated in the announcement of the Company dated 10 May, 2005, the Directors believe that the acquisition of the Boeing Aircraft will further increase the transportation capacity of the aircraft fleet of the Company and Xiamen Airlines, as a result of which the ATK of the fleet will be raised by 15%. This will in turn improve the operating capacity of the Company and Xiamen Airlines, and enhance their abilities to provide premium services to their customers and to compete significantly in the industry. Therefore, the Directors believe that the terms of the Boeing Aircraft Acquisition Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(9) IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratio for the Boeing Transaction with regards to the Consideration Test under Rule 14.07 of the Listing Rules is above 100%, the Boeing Transaction constitutes a very substantial acquisition under the Listing Rules and is therefore subject to approval by the Company's shareholders under Rule 14.49 of the Listing Rules.

None of the shareholders of the Company is required to abstain from voting in respect of the proposed resolution to approve the Boeing Transaction.

4. PROSPECTS

As disclosed in the 2004 annual report of the Company dated 25 April, 2004, for the period from 1 January, 2004 to 31 December, 2004, the demand in the PRC civil aviation market sustained the growth trend from the second half of 2003. As a result, the Group recorded a year-on-year growth of more than 37% in total operating revenue, marking a breakthrough achievement in the Group's history.

2005 is expected to be a year of challenge for the Group. While managing the integrated operations of the Group after the acquisition of operations and assets of China Northern Airlines Company and Xinjiang Airlines Company, the Group will also face increasing competition due to increasing supply in flight capacity in the PRC aviation market. Instabilities in the world economy and in global politics continued to drive up the prices of aviation fuel in the international market. However, as an airline in the PRC, the options available to the Group to control the costs of aviation fuel were limited. As such, the high aviation fuel price exerted immense pressure on the operating expenses of the Group.

5. RECOMMENDATIONS

The Board recommends the shareholders of the Company to vote in favour of the ordinary resolutions to be proposed at the AGM in respect of the Airbus Aircraft Acquisition Agreement, the Boeing Aircraft Acquisition Agreement and the Transactions contemplated under those agreements.

6. AGM

Set out on pages 82 to 84 is a supplemental notice convening the AGM to be held at the headquarters of the Company at No. 278, Ji Chang Road, Guangzhou, Guangdong Province, the PRC on 15 June, 2005 at 9:00 a.m. If you are not able to attend and/or vote at the AGM, you are strongly urged to complete the accompanying supplemental form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the AGM or any adjournment thereof. Completion and return of the supplemental form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

7. ADDITIONAL INFORMATION

Your attention is drawn to the financial and general information set out in the annual report of the Company for the period from 1 January, 2004 to 31 December, 2004 and the information set out in the appendices to this circular.

By Order of the Board
LIU SHAO YONG
Chairman

I SUMMARY OF FINANCIAL STATEMENTS

The following consolidated income statements of the Company for each of the three years ended 31 December, 2004 and the consolidated balance sheets of the Company as at 31 December 2004, 2003 and 2002 are derived from the audited financial statements of the Company prepared under International Financial Reporting Standards. All such financial information should be read in conjunction with the audited consolidated financial statements and accompanying notes, which are included in the Company's annual reports. The audited financial statements of the Company for the year ended 31 December, 2004, as extracted from the Company's 2004 annual report, are set out in part II of this Appendix I.

CONSOLIDATED INCOME STATEMENTS

For each of the three years ended 31 December, 2004

	2004	2003	
	RMB million	RMB million	RMB
Operating revenue:			
Traffic revenue	23,344	16,965	
Other operating revenue	630	505	
Total operating revenue	23,974	17,470	
Operating expenses:			
Flight operations	10,418	7,070	
Maintenance	3,459	2,589	
Aircraft and traffic servicing	3,503	2,767	
Promotion and sales	1,940	1,480	
General and administrative	1,323	1,053	
Depreciation and amortisation	2,413	2,038	

Other	9	17
Total operating expenses	23,065	17,014
Operating profit	909	456
Non-operating income/(expenses):		
Interest income	22	13
Interest expense	(691)	(824)
Share of associates' results	12	48
Share of jointly controlled entities' results	(5)	(39)
(Loss)/gain on disposal of property, plant and equipment	(1)	(22)
Exchange loss, net	(59)	(164)
Other, net	46	21
Total net non-operating expenses	(676)	(967)
Profit/(loss) before taxation and minority interests	233	(511)
Income tax (expense)/credit	(78)	324
Profit/(loss) before minority interests	155	(187)
Minority interests	(203)	(171)
(Loss)/profit attributable to shareholders	(48)	(358)
Basic (loss)/earnings per share	RMB(0.01)	RMB(0.09)

CONSOLIDATED BALANCE STATEMENTS

For each of the three years ended 31 December, 2004

	2004	2003	
	RMB million	RMB million	RMB m
NON-CURRENT ASSETS			

Property, plant and equipment	46,841	28,536
Construction in progress	565	1,630
Lease prepayments	346	349
Interest in associates	429	422
Interest in jointly controlled entities	782	731
Other investments	272	204
Lease and equipment deposits	5,397	2,933
Deferred expenditure	316	249
Long-term receivables	15	6
	54,963	35,060
CURRENT ASSETS		
Short-term investments	683	-
Inventories	1,302	544
Trade receivables	1,203	834
Other receivables	616	296
Prepaid expenses and other assets	378	248
Cash and cash equivalents	3,083	2,080
	7,265	4,002
CURRENT LIABILITIES		
Bank and other loans	11,518	7,097
Obligations under finance leases	2,144	1,298
Amounts due to related companies	2,330	929
Trade payables	1,554	928
Bills payable	136	438
Sales in advance of carriage	874	466
Accrued expenses	4,551	2,528
Other liabilities	2,974	1,020
Taxes payable	39	90
	26,120	14,794
NET CURRENT LIABILITIES	(18,855)	(10,792)
TOTAL ASSETS LESS CURRENT LIABILITIES	36,108	24,268

	2004	2003	
	RMB million	RMB million	RMB m
LONG TERM LIABILITIES AND DEFERRED ITEMS			
Bank and other loans	11,935	4,522	
Obligations under finance leases	9,599	5,543	
Provision for major overhauls	284	189	
Deferred credits	100	47	
Deferred tax liabilities	287	398	
	22,205	10,699	
	13,903	13,569	
REPRESENTING:			
SHARE CAPITAL	4,374	4,374	
RESERVES	7,474	7,522	
SHAREHOLDERS' EQUITY	11,848	11,896	
MINORITY INTERESTS	2,055	1,673	
	13,903	13,569	

II FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004	
		RMB million	RMB m
Operating revenue:			
Traffic revenue		23,344	
Other operating revenue		630	

Total operating revenue	3	23,974	--
Operating expenses:			
Flight operations		10,418	
Maintenance		3,459	
Aircraft and traffic servicing		3,503	
Promotion and sales		1,940	
General and administrative		1,323	
Depreciation and amortisation		2,413	
Other		9	
Total operating expenses	4	23,065	--
Operating profit		909	--
Non-operating income/(expenses):			
Interest income		22	
Interest expense	4	(691)	
Share of associates' results		12	
Share of jointly controlled entities' results	14	(5)	
Loss on disposal of property, plant and equipment	5	(1)	
Exchange loss, net		(59)	
Other, net		46	
Total net non-operating expenses		(676)	--
Profit/(loss) before taxation and minority interests	4	233	
Income tax (expense)/credit	7	(78)	
Profit/(loss) before minority interests		155	
Minority interests		(203)	
Loss attributable to shareholders		(48)	==
Basic loss per share	9	RMB(0.01)	RM

The notes on pages 20 to 61 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004	
		RMB million	RMB m
NON-CURRENT ASSETS			
Property, plant and equipment	10	46,841	
Construction in progress	11	565	
Lease prepayments		346	
Interest in associates	13	429	
Interest in jointly controlled entities	14	782	
Other investments	15	272	
Lease and equipment deposits		5,397	
Deferred expenditure	16	316	
Long-term receivables		15	
		54,963	
CURRENT ASSETS			
Short-term investments	15	683	
Inventories	18	1,302	
Trade receivables	19	1,203	
Other receivables		616	
Prepaid expenses and other assets		378	
Cash and cash equivalents	20	3,083	
		7,265	
CURRENT LIABILITIES			
Bank and other loans	21	11,518	
Obligations under finance leases	22	2,144	
Amounts due to related companies	23	2,330	
Trade payables	24	1,554	
Bills payable		136	
Sales in advance of carriage		874	
Accrued expenses		4,551	
Other liabilities		2,974	
Taxes payable		39	
		26,120	
NET CURRENT LIABILITIES		(18,855)	(
TOTAL ASSETS LESS CURRENT LIABILITIES		36,108	

The notes on pages 20 to 61 form part of these financial statements.

CONSOLIDATED BALANCE SHEET (CONT'D)

As at 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004
		RMB million
LONG TERM LIABILITIES AND DEFERRED ITEMS		
Bank and other loans	21	11,935
Obligations under finance leases	22	9,599
Provision for major overhauls	25	284
Deferred credits		100
Deferred tax liabilities	17	287
		22,205
		13,903
REPRESENTING:		
SHARE CAPITAL	26	4,374
RESERVES	27	7,474
SHAREHOLDERS' EQUITY		11,848
MINORITY INTERESTS		2,055
		13,903

Approved and authorised for issue by the board of directors on 25 April, 2005.

LIU SHAO YONG	SI XIAN MIN	XU JIE BO
Director	Director	Director

The notes on pages 20 to 61 form part of these financial statements.

BALANCE SHEET

As at 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004	
		RMB million	RMB m
NON-CURRENT ASSETS			
Property, plant and equipment	10	39,254	
Construction in progress	11	232	
Lease prepayments		128	
Interest in subsidiaries	12	2,149	
Interest in associates	13	296	
Interest in jointly controlled entities	14	636	
Other investments	15	167	
Lease and equipment deposits		4,674	
Deferred expenditure	16	305	
Deferred tax assets	17	51	
		47,892	
CURRENT ASSETS			
Short-term investments	15	502	
Inventories	18	999	
Trade receivables	19	1,035	
Other receivables		391	
Prepaid expenses and other assets		289	
Cash and cash equivalents	20	2,302	
		5,518	
CURRENT LIABILITIES			
Bank and other loans	21	10,161	
Obligations under finance leases	22	2,144	
Amounts due to related companies	23	2,278	
Trade payables	24	1,320	
Bills payable		136	
Sales in advance of carriage		806	

Accrued expenses	3,733
Other liabilities	2,467
Taxes payable	-
	23,045
NET CURRENT LIABILITIES	(17,527)
TOTAL ASSETS LESS CURRENT LIABILITIES	30,365

The notes on pages 20 to 61 form part of these financial statements.

BALANCE SHEET (CONT'D)

As at 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004	
		RMB million	RMB mi
NON-CURRENT LIABILITIES AND DEFERRED ITEMS			
Bank and other loans	21	10,540	
Obligations under finance leases	22	9,599	
Provision for major overhauls	25	186	
Deferred credits		60	
Deferred tax liabilities	17	-	
		20,385	
		9,980	
REPRESENTING:			
SHARE CAPITAL	26	4,374	
RESERVES	27	5,606	
SHAREHOLDERS' EQUITY		9,980	

Approved and authorised for issue by the board of directors on 25 April, 2005.

LIU SHAO YONG	SI XIAN MIN	XU JIE BO
Director	Director	Director

The notes on pages 20 to 61 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	SHARE CAPITAL	SHARE PREMIUM	OTHER PREMIUM	RETAINED EARNINGS	
	RMB million	RMB million	RMB million	RMB million	RMB m
At 1 January, 2003	3,374	3,684	586	1,969	
Issue of A Shares (Note 26)	1,000	1,641	-	-	
Loss for the year	-	-	-	(358)	
Appropriations to reserves	-	-	25	(25)	
At 31 December, 2003	4,374	5,325	611	1,586	
At 1 January, 2004	4,374	5,325	611	1,586	
Loss for the year	-	-	-	(48)	
Appropriations to reserves	-	-	61	(61)	
At 31 December, 2004	4,374	5,325	672	1,477	

The notes on pages 20 to 61 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December, 2004
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004	
		RMB million	RMB m
Cash inflows from operations	34(a)	4,555	
Interest received		22	
Interest paid		(754)	
Income tax paid		(227)	
Net cash inflows from operating activities		3,596	
Investing activities:			
Proceeds from disposal of property, plant and equipment		47	
Dividends received from associates		12	
Dividends received from jointly controlled entities		5	
Dividends received from equity securities held for trading		13	
(Increase)/decrease in long term receivables		(9)	
Payment of lease and equipment deposits		(3,151)	
Refund of lease and equipment deposits		1,253	
Capital expenditures		(6,631)	
Purchase of other investments		(680)	
Investment in an associate		(9)	
Investments in jointly controlled entities		(72)	
Effect of the CNA/XJA Acquisitions	34(b)	398	
Net cash used in investing activities		(8,824)	
Net cash outflows before financing activities		(5,228)	
Financing activities:			
Proceeds from A Shares issue, net of issuance costs		-	
Proceeds from bank and other loans		14,555	
Repayment of bank and other loans		(7,108)	

Repayment of principal under finance lease obligations	(1,272)
Capital contribution received from minority shareholders	71
Dividends paid to minority shareholders	(15)
Net cash inflows from financing activities	6,231
Increase/(decrease) in cash and cash equivalents	1,003
Cash and cash equivalents at beginning of year	2,080
Cash and cash equivalents at end of year	3,083

The notes on pages 20 to 61 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

1 BACKGROUND OF THE COMPANY

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

The Company was established in the People's Republic of China (the "PRC", "China" or the "State") on 25 March, 1995 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of the Company's holding company, China Southern Air Holding Company ("CSAHC"). CSAHC is a state-owned enterprise under the supervision of the PRC central government.

The Company's H shares ("H Shares") and American Depositary Shares ("ADS") (each ADS representing 50 H Shares) have been listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively since July 1997. In July 2003, the Company issued 1,000,000,000 A shares ("A Shares") which are listed on the Shanghai Stock Exchange.

Pursuant to a sale and purchase agreement dated 12 November, 2004 between the Company, CSAHC, China Northern Airlines Company ("CNA") and Xinjiang Airlines Company ("XJA") which was approved by the Company's shareholders in an extraordinary general meeting held on 31 December, 2004, the Company acquired the airline operations and certain related assets of CNA and XJA with effect from 31 December, 2004 (the "CNA/XJA Acquisitions"). The consideration payable for the CNA/XJA Acquisitions amounting to RMB15,522 million was determined based on the fair value of the acquired assets. Such consideration was partly satisfied by assumption of debts and liabilities of CNA and XJA totalling RMB13,563 million outstanding as at 31 December, 2004 and the remaining balance of RMB1,959 million will be satisfied in cash.

As the above acquisitions were completed on 31 December, 2004, they have no impact on the Company's consolidated income statement for the year ended 31 December, 2004.

Further details of the CNA/XJA Acquisitions are set out in Note 34(b) to the financial statements.

2 PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently by the Group and are consistent with those used in the previous year.

(c) BASIS OF CONSOLIDATION

(i) Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 2(l)).

(ii) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

A jointly controlled entity is an entity over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a jointly controlled entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a jointly controlled entity.

Unrealised profits arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less any impairment losses (see Note 2(l)).

(d) PROPERTY, PLANT AND EQUIPMENT

(i) Owned assets

An item of property, plant and equipment is initially recorded at cost less accumulated depreciation (see (iv) below) and impairment losses (see Note 2(l)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (see Note 10), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Flight equipment acquired by way of finance lease is stated at an amount equal to lower of its fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation (see (iv) below) and impairment losses (see Note 2(l)) and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Subsequent to the revaluation (see Note 10), 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. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rentals are written off as an expense of the period in which they are incurred.

Gains or losses on aircraft sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases. Gains or losses on other aircraft sale and leaseback transactions are recognised immediately if the transactions are established at fair value. Any difference between the sales price and the fair value is deferred and amortised over the period the assets are expected to be used.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is calculated to write off the cost or revalued amount of items of property, plant and equipment over their estimated useful lives on a straight-line basis, after taking into account its estimated residual value, as follows:

	DEPRECIABLE LIFE	RESIDUAL
Buildings	15 to 40 years	
Owned and leased aircraft	8 to 15 years	28
Other flight equipment		
- Jet engines	8 to 15 years	
- Others, including rotable spares	8 to 15 years	
Machinery and equipment	5 to 10 years	
Vehicles	6 years	

Depreciation for leased assets is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out above.

(e) CONSTRUCTION IN PROGRESS

Construction in progress represents office buildings, various infrastructure projects under construction and equipment pending installation, and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

(f) LEASE PREPAYMENTS

Lease prepayments represent the purchase costs of land use rights and are amortised on a straight line basis over the period of land use rights.

(g) DEFERRED EXPENDITURE

Custom duties and other direct costs in relation to modifying, introducing and certifying certain operating leased aircraft are deferred and amortised over the terms of the related leases.

Lump sum housing benefits payable to employees of the Group are deferred and amortised on a straight line basis over a period of 10 years, which represents the benefit vesting period of the employees.

(h) OTHER INVESTMENTS

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Where the Group has the positive intent and ability to hold bonds to maturity, they are stated at amortised cost less impairment losses (see Note 2(l)).

Other financial instruments are stated at cost less impairment losses (see Note 2(l)). Other financial instruments represent unquoted available-for-sale equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

(i) INVENTORIES

Inventories, which consist primarily of expendable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are expensed when used in operations. Cost represents the average unit cost. Inventories held for disposal are stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

(j) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less provision for doubtful accounts. Provision for doubtful accounts is established based on evaluation of the recoverability of these accounts at the balance sheet date.

(k) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and balances with banks and other financial institutions with an original maturity within three months. For the purpose of the consolidated cash flow statement, cash and cash equivalents are presented net of bank overdrafts, if any.

(l) IMPAIRMENT LOSS

The carrying amounts of the Group's assets, other than inventories (see Note 2(i)), trade and other receivables (see Note 2(j)) and deferred tax assets (see Note 2(q)) are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These 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 recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(n) PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) DEFEASANCE OF LONG-TERM LIABILITIES

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off in order to reflect the overall commercial effect of the arrangements. Such netting off has been effected where a right is held by the Group to insist on net settlement of the liability and deposit including in all situations of default and where that right is assured beyond doubt.

(p) DEFERRED CREDITS

In connection with the acquisition or operating lease of certain aircraft and engines, the Group receives various credits. Such credits are deferred until the aircraft and engines are delivered, at which time they are either applied as a reduction of the cost of acquiring the aircraft and engines, resulting in a reduction of future depreciation, or amortised as a reduction of rental expense for aircraft and engines under operating leases.

(q) DEFERRED TAXATION

Deferred tax is provided 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.

(r) REVENUE RECOGNITION

(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. Revenues from airline-related business are recognised when services are rendered. Revenue is stated net of sales tax. In addition, prior to 1 May, 2003, revenue was stated net of the contributions to the Civil Aviation Administration of China ("CAAC") Infrastructure Development Fund.

(ii) Interest income is recognised on a time proportion basis according to the outstanding principal and the applicable interest rate.

(iii) Dividend income is recognised when the Group's right to receive the dividend is established.

(iv) Operating lease income is recognised on a straight line basis over the terms of the respective leases.

(s) 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 a prepaid expense.

(t) MAINTENANCE AND OVERHAUL COSTS

Routine maintenance and repairs and overhauls in respect of owned aircraft and aircraft held under finance leases are expensed in the income statement as and when incurred. In respect of aircraft held under operating leases, a provision is made over the lease term for the estimated cost of overhauls required to be performed on the related aircraft prior to their return to the lessors.

(u) BORROWING COSTS

Borrowing costs are expensed in the income statement as and when incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

(v) RETIREMENT BENEFITS

Contributions to retirement schemes and additional retirement benefits paid to retired employees are charged to the income statement as and when incurred.

(w) FREQUENT FLYER AWARD PROGRAMMES

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and the 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) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the PBOC rates at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC rates prevailing on the transaction dates.

(y) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(z) SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 TURNOVER

Turnover comprises revenues from airline and airline-related business and is stated net of sales tax. In addition, turnover for the four-month period ended 30 April, 2003 was stated net of contributions to the CAAC Infrastructure Development Fund. An analysis of turnover is as follows:

	2004	2003
	RMB million	RMB million
Traffic revenue		
Passenger	21,100	15,010
Cargo and mail	2,244	1,955
	23,344	16,965
Other operating revenue		
Commission income	203	140
General aviation income	55	40
Ground services income	146	99
Air catering income	53	31
Net income from lease arrangements (Note)	-	69

Rental income	45	40
Aircraft lease income	11	-
Other	117	86
	630	505
	23,974	17,470

Note: As result of a lease arrangement in 2003, the Company received net cash benefits of RMB69 million which were recognised as income in 2003. Further details of the arrangement are set out in note 10(g) to the financial statements.

Pursuant to various sales tax rules and regulations, the Group is required to pay sales tax to national and local tax authorities at the following rates:

TYPES OF REVENUE	APPLICABLE SALES TAX RATES
Traffic revenue	3% (2003: 3%) of traffic revenue in respect of domestic flights and outbound international/Hong Kong regional flights, except for the period from 1 May, 2003 to 31 December, 2003 when passenger revenue was exempted from sales tax.
Other operating revenue	3% (2003: 3%) of commission income, general aviation income and ground services income, and 3% to 5% (2003: 3% to 5%) of other operating revenue.

Sales tax incurred during the year ended 31 December, 2004, netted off against revenue, amounted to RMB716 million (2003: RMB206 million).

In addition, the Group is required to pay contributions to the CAAC Infrastructure Development Fund. Prior to 1 May, 2003, contributions to CAAC Infrastructure Development Fund were payable at 5% and 2% respectively of the domestic and international/Hong Kong regional traffic revenue. For the period from 1 May, 2003 to 31 March, 2004, the Group was exempted from paying any contributions. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund are payable based on the traffic capacity deployed by the Group on its routes. The contributions now form part of the flight operations expenses and amounted to RMB466 million for the year ended 31 December, 2004. The contributions for the year ended 31 December, 2003 amounted to RMB251 million and were netted off against traffic revenue.

Pursuant to approval documents issued by the CAAC, the Group imposes a fuel surcharge on passengers carried by its domestic and Hong Kong regional flights at certain prescribed rates on ticket fares. The fuel surcharge forms part of the traffic revenue of the Group. For the year ended 31 December, 2004, the fuel surcharge revenue of the Group totalled approximately RMB348 million (2003: RMB740 million).

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4 PROFIT/(LOSS) BEFORE TAXATION AND MINORITY INTERESTS

Profit/(loss) before taxation and minority interests is arrived at after charging:

	2004	
	RMB million	RMB m
Operating expenses		
Jet fuel	6,050	
Aircraft maintenance	3,132	
Routes	5,626	
Depreciation		
- owned assets	1,891	
- assets held under finance leases	472	
Amortisation of deferred expenditure	50	
Operating lease charges		
- aircraft and flight equipment	1,665	
- land and buildings	109	
Staff costs		
- salaries, wages and welfare	2,260	
- contributions to retirement schemes	168	
Office and administration	718	
Auditors' remuneration	11	
Other	913	
	23,065	
Interest expense		
Interest on bank and other loans wholly repayable within five years	221	
Interest on other loans	156	
Finance charges on obligations under finance leases	348	
Less: borrowing costs capitalised (Note)	(34)	
Net interest expense	691	
and after crediting:		
Net realised and unrealised gain on equity securities held for trading	15	

Dividend income from unlisted investments	14
	======

Note: The borrowing costs have been capitalised at rates ranging from 1.51% to 3.48% per annum (2003: 1.62% to 5.46% per annum).

The loss attributable to shareholders for the year ended 31 December, 2004 includes a loss of RMB169 million (2003: RMB581 million) which has been dealt with in the financial statements of the Company.

5 LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Loss on disposal of property, plant and equipment represents:

	2004	
	RMB million	RM
Aircraft (Note)	-	
Flight equipment and other	1	
	1	

Note: During 2003, the Group incurred a loss of RMB20 million on early retirement of two old Boeing 737-200 aircraft.

6 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2004
	RMB'000
Fees	255
Salaries, allowances and benefits in kind	3,498
Retirement benefits	116
Bonuses	868
	4,737

Included in the above were fees of RMB255,000 (2003: RMB203,000) paid to independent non-executive directors during the year.

An analysis of directors' and supervisors' emoluments by number of individuals and emolument ranges is as follows:

	2004
	Number
Nil to HK$1,000,000 (RMB1,066,000 equivalent)	18

(b) SENIOR MANAGEMENT'S EMOLUMENTS

Details of emoluments paid to the five highest paid individuals (including directors and supervisors) of the Group during the year are as follows:

	2004
	RMB'000
Salaries, allowances and benefits in kind	2,045
Retirement benefits	29
	2,074

An analysis of emoluments paid to the five highest paid individuals (including directors and supervisors) by number of individuals and emolument ranges is as follows:

	2004
	Number
Directors and supervisors	-

Employees	5

	5
	===
Nil to HK$1,000,000 (RMB1,066,000 equivalent)	5
	===

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2004	
	RMB million	RMB m
PRC income tax	176	
Share of associates' taxation	2	
Share of jointly controlled entities' taxation	11	
	189	
Deferred tax (Note 17)		
- current year	(111)	
- adjustment for change in enacted tax rate	-	
Income tax expense/(credit)	78	

On 17 October, 2003, the Company's registered address was moved to Guangzhou Economic & Technology Development Zone. In accordance with the Rules and Regulations for Implementation of Income Tax for Foreign Investment Enterprises and Foreign Enterprises of the PRC and a taxation approval document "Guangzhou Municipal State Tax Bureau Suo De Shui Zi Que 020043", the Company is entitled to enjoy the preferential tax policy implemented in the Guangzhou Economic & Technology Development Zone effective 1 October, 2003. As a result, the Company's income tax rate has been changed from 33% to 15% beginning from that date.

As a result of the reduction in income tax rate, the Company's net deferred tax liability balance at 1 January, 2003 of RMB507 million was reduced by RMB392 million. Accordingly, a net deferred tax credit of RMB392 million was recognised in the income statement for the year ended 31 December, 2003.

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 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 years.

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	2004	
	RMB million	RMB m
Profit/(loss) before taxation and minority interests	233	
Expected PRC income tax expense/(credit) at 15% (2003: 15%)	35	
Adjustments:		
Effect of change in income tax rate	-	
Non-deductible expenses	40	
Other, net	3	
Income tax expense/(credit)	78	

In accordance with relevant PRC tax regulations, a PRC lessee is liable to pay PRC withholding tax in respect of any lease payments regularly made to an overseas lessor. Depending on the circumstances, this tax is generally imposed at a fixed rate ranging from 10% to 20% of the lease payments, or in certain cases, the interest components of such payments. Pursuant to an approval document from the State Tax Bureau, lease arrangements executed prior to 1 September, 1999 are exempted from PRC withholding tax.

The PRC withholding tax payable by the Group for the year ended 31 December, 2004 of RMB23 million (2003: RMB8 million) in respect of the leases executed on or after 1 September, 1999 has been included as part of the operating lease charges for the year.

8 DIVIDENDS

No interim dividend was paid during both the current and prior years.

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December, 2004. No final dividend was paid in respect of the year ended 31 December, 2003.

9 BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of RMB48 million (2003: RMB358 million) and the weighted average number of shares in issue during the year of 4,374 million (2003: 3,832 million).

The amount of diluted loss per share is not presented as there were no dilutive potential ordinary shares in existence for both the current and prior years.

10 PROPERTY, PLANT AND EQUIPMENT

(a) THE GROUP

		AIRCRAFT				
	BUILDINGS	OWNED	HELD UNDER FINANCE LEASES	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES	MACHINERY, EQUIPMENT AND VEHICLES	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB m
Cost or valuation:						
At 1 January, 2004	3,288	17,222	10,463	6,842	1,930	3
Exchange adjustments	5	-	-	-	12	
Reclassification on exercise of purchase options	-	550	(550)	-	-	
Additions	336	4,156	-	525	5	
Transferred from construction in progress	2,472	-	-	-	235	
Through the CNA/XJA Acquisitions	915	5,206	4,616	1,753	490	1
Disposals	(28)	-	-	(76)	(73)	
At 31 December, 2004	6,988	27,134	14,529	9,044	2,599	6
Representing:						
Cost	6,633	20,905	10,189	6,870	2,115	4
Valuation - 1996	355	6,229	4,340	2,174	484	1
	6,988	27,134	14,529	9,044	2,599	6
Accumulated depreciation:						
At 1 January, 2004	594	3,192	2,605	3,644	1,174	1
Exchange adjustments	1	-	-	-	9	
Reclassification on exercise of purchase options	-	183	(183)	-	-	
Charge for the year	179	956	472	544	212	
Written back on disposal	(17)	-	-	(51)	(61)	

At 31 December,

2004	757	4,331	2,894	4,137	1,334	1
Net book value: At 31 December, 2004	6,231	22,803	11,635	4,907	1,265	4
At 31 December, 2003	2,694	14,030	7,858	3,198	756	2

(b) THE COMPANY

		AIRCRAFT				
	BUILDINGS	OWNED	HELD UNDER FINANCE LEASES	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES	MACHINERY, EQUIPMENT AND VEHICLES	
	RMB million	RMB million	RMB million	RMB million	RMB million	RM
Cost or valuation: At 1 January, 2004	1,644	12,868	10,463	5,396	1,189	
Reclassification on exercise of purchase options	-	550	(550)	-	-	
Additions through transfer of property, plant and equipment upon dissolution of a subsidiary	3	-	-	134	13	
Additions	12	3,509	-	192	38	
Transferred from construction in progress	1,663	-	-	-	235	
Through the CNA/XJA Acquisitions	727	5,206	4,616	1,745	441	
Disposals	(23)	-	-	-	(40)	

At 31 December, 2004	4,026	22,133	14,529	7,467	1,876
Representing:					
Cost	3,832	17,520	10,189	5,642	1,612
Valuation - 1996	194	4,613	4,340	1,825	264
	4,026	22,133	14,529	7,467	1,876
Accumulated depreciation:					
At 1 January, 2004	324	2,231	2,605	3,073	717
Reclassification on exercise of purchase options	-	183	(183)	-	-
Additions through transfer of property, plant and equipment upon dissolution of a subsidiary	1	-	-	72	10
Charge for the year	110	744	472	346	117
Written back on disposal	(10)	-	-	-	(35)
At 31 December, 2004	425	3,158	2,894	3,491	809
Net book value:					
At 31 December, 2004	3,601	18,975	11,635	3,976	1,067
At 31 December, 2003	1,320	10,637	7,858	2,323	472

(c) Substantially all of the Group's buildings are located in the PRC. The Group was formally granted the rights to use the twenty one parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou, Guiyang and Wuhan by the relevant PRC authorities for periods of 30 to 70 years, which expire between 2020 and 2068. For other land in the PRC on which the Group's buildings are erected, the Group was formally granted the rights to use such land for periods of one to five years commencing in the second quarter of 1997 pursuant to various lease agreements between the Company and CSAHC. The leases with initial one-year term are automatically renewable for another one-year period unless the Company gives appropriate notice of termination. In this connection, rental payments totalling RMB18 million (2003: RMB15 million) were paid to CSAHC during 2004 in respect of these leases.

(d) In compliance with the PRC rules and regulations governing initial public offering of shares by PRC joint stock limited companies, the property, plant and equipment of the Group as at 31 December, 1996 were revalued. This revaluation was conducted by Guangzhou Assets Appraisal Corp. ("GAAC"), a firm of independent valuers registered in the PRC, on a depreciated replacement cost basis, and approved by the China State-owned Assets Administration Bureau.

In accordance with IAS 16 "Property, plant and equipment", subsequent to the 1996 revaluation, which was based on replacement costs, the property, plant and equipment of the Group are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In accordance with the revaluation performed by the directors in respect of property, plant and equipment held by the Group as at 31 December, 2000, the carrying amounts of property, plant and equipment did not differ materially from their respective fair value.

The effect of the above revaluation was to increase future annual depreciation charges of the Group by approximately RMB33 million (2003: RMB33 million). Had the property, plant and equipment of the Group and the Company been stated at cost (i.e. the effect of the revaluation was excluded), the net book value of property, plant and equipment of the Group and the Company as at 31 December, 2004 would have been approximately RMB46,838 million and RMB39,684 million respectively (2003: RMB28,523 million and RMB22,794 million respectively), made up as follows:

	THE GROUP		THE COMPA	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RM
Buildings	6,797	3,110	4,178	
Aircraft				
- owned	28,257	18,345	22,923	
- held under finance leases	15,008	10,942	15,008	
Flight equipment and others	12,516	9,634	9,726	
	62,578	42,031	51,835	
Less: Accumulated depreciation	15,740	13,508	12,151	
	46,838	28,523	39,684	

(e) As at 31 December, 2004, certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB23,562 million and RMB21,814 million respectively (2003: RMB14,576 million and RMB12,796 million respectively) were mortgaged under certain loan and lease agreements (see Notes 21 and 22).

(f) In 2003, the Company entered into operating lease arrangements to lease certain flight training facilities and buildings to Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a jointly controlled entity of the Company. The leases with initial one-year term are automatically renewable for another one year unless either party gives appropriate notice of termination. In this connection, rental income totalling RMB34 million (2003: RMB34 million) was received by the Company during the year in respect of the leases. As at 31 December, 2004, the cost and accumulated depreciation of the relevant property, plant and equipment totalled RMB787 million and RMB514 million respectively (2003: RMB787 million and RMB462 million respectively). Depreciation of the relevant property, plant and equipment recognised during the year totalled RMB55 million (2003: RMB55 million). As at 31 December 2004, the Company's rental receivable in respect of the leases due in 2005 amounted to RMB34 million (2003: RMB34 million).

(g) The Company entered into two separate arrangements (the "Arrangements") with certain independent third parties during each of 2002 and 2003. Under each of the Arrangements, the Company sold an aircraft and then immediately leased back the aircraft for an agreed period. The lease payment obligations, with pre-determined net present value, are to be satisfied solely out of the sale proceeds and such amount has been placed irrevocably by the Company in form of deposits and debt securities in favour of the lessors. The Company has an option to purchase the aircraft at a pre-determined date and an agreed purchase price to be satisfied by the balances of the deposits and debt securities outstanding at that date. In the event that the lease agreement is early terminated by the Company, the Company is liable to pay a pre-determined penalty to the lessor. Provided that the Company complies with the lease agreements, the Company is entitled to the continued possession and operation of the aircraft. Since the Company retains substantially all risks and rewards incident to ownership of the aircraft and enjoys substantially the same rights to their use as before the Arrangements, no adjustment has been made to the property, plant and equipment. As at 31 December, 2004, the net present value of the lease commitments and the corresponding defeased deposits and debt securities amounted to RMB2,462 million (2003: RMB2,409 million). As a result of the Arrangements, the Company received net cash benefits which were recognised as income (Note 3).

(h) As at 31 December, 2004 and up to the date of approval of these financial statements, the Group is in the process of applying for the land use right certificates and property title certificates in respect of the properties located in the Guangzhou new airport, Guangzhou Baiyun International Airport, in which the Group has interests and for which such certificates have not been granted. As at 31 December, 2004, carrying value of such properties of the Group and the Company amounted to RMB2,477 million and RMB1,417 million respectively.

The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right certificates and property title certificates.

11 CONSTRUCTION IN PROGRESS

	2004
	RMB million
THE COMPANY	
Shenzhen cargo centre	22
Guangzhou new airport support area	65
Boeing 777 aircraft engines upgrade	18
Guangzhou new airport base	-
Hubei catering building	-
Zhengzhou ticket selling office	-
Material and engineering system	22
Henan office building	-
Other	105
	232
SUBSIDIARIES	
Guangzhou new cargo centre	254
Fuzhou Chang Le airport facilities	20
Other	59
	333
	565

12 INTEREST IN SUBSIDIARIES

	THE COM
	2004

	RMB million	RM
Unlisted shares/capital contributions, at cost	1,232	
Amounts due from subsidiaries	917	

	2,149	
	=====	

In 2004, China Southern Airlines (Group) Zhuhai Helicopter Company Limited, a wholly owned subsidiary of the Company, was dissolved. Its operations and assets and liabilities were transferred to the Company. No material gains or losses were incurred by the Company on dissolution of the subsidiary.

A new subsidiary, Guangzhou Air Cargo Company Limited, was established in 2004.

Details of the Company's principal subsidiaries are set out in Note 37.

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APPENDIX I FINANCIAL INFORMATION OF THE GROUP

13 INTEREST IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RMB m
Share of attributable net assets other than goodwill	429	422	-	
Unlisted capital contributions, at cost	-	-	357	
Impairment loss for investment in an associate	-	-	(61)	
	---	---	---	
	429	422	296	
	===	===	===	

Details of the Group's principal associates are set out in Note 38.

14 INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	

	RMB million	RMB million	RMB million	RMB m
Share of attributable net assets other than goodwill	782	731	-	
Unlisted capital contributions, at cost	-	-	636	
	782	731	636	

Details of the Company's principal jointly controlled entities are set out in Note 38.

An analysis of the Group's attributable share of assets, liabilities, revenues and expenses of the jointly controlled entities is set out below:

	2004	2003
	RMB million	RMB million
Non-current assets	845	606
Current assets	794	619
Non-current liabilities	(389)	(236)
Current liabilities	(468)	(258)
Net assets	782	731
Income	762	486
Expenses	(767)	(525)
Net loss	(5)	(39)

15 OTHER INVESTMENTS

	THE GROUP		THE COMPANY	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RMB m
NON-CURRENT INVESTMENTS				
Equity securities available for sale	272	204	167	

	===	===	===
CURRENT INVESTMENTS			
Equity securities held for trading	523	-	502
Debt securities held-to-maturity	160	-	-
	---	---	---
	683	-	502
	===	===	===

16 DEFERRED EXPENDITURE

	THE GROUP		THE COMPANY	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RMB m
Custom duties and other direct costs	19	26	8	
Lump sum housing benefits (Note 29)	197	223	197	
Deferred loss on aircraft sale and leaseback arrangements	100	-	100	
	---	---	---	
	316	249	305	
	===	===	===	

17 DEFERRED TAX

Movements in net deferred tax (liabilities)/assets are as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RMB m
Balance at 1 January,	(398)	(779)	(90)	
Credited/(charged) to income statement (Note 7)				
- current year	111	(11)	141	
- adjustment for change in income tax rate	-	392	-	
	----	----	---	
Balance at 31 December,	(287)	(398)	51	
	====	====	===	

The net deferred tax (liabilities)/assets at 31 December, 2004 were made up of the following tax effects:

	THE GROUP		THE COMPANY
	2004	2003	2004
	RMB million	RMB million	RMB million
Deferred tax assets:			
Tax losses	39	223	39
Repairs and maintenance accruals	129	88	125
Repair charges capitalised	254	261	195
Accrued expenses	146	19	146
Other	21	9	20
Total deferred tax assets	589	600	525
Deferred tax liabilities:			
Repairs and maintenance accruals	75	81	-
Depreciation of property, plant and equipment	752	848	459
Other	49	69	15
Total deferred tax liabilities	876	998	474
Net deferred tax (liabilities)/assets	(287)	(398)	51

18 INVENTORIES

	THE GROUP		THE COMPANY
	2004	2003	2004
	RMB million	RMB million	RMB million
Expendable spare parts and maintenance materials	1,175	486	904
Other supplies	127	58	95
	1,302	544	999

No significant amount of inventories was carried at net realisable value at 31 December, 2003 and 2004.

19 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 provision for doubtful accounts, is set out below:

	THE GROUP		THE COMP
	2004	2003	2004
	RMB million	RMB million	RMB million
Within 1 month	998	589	863
More than 1 month but less than 3 months	163	236	133
More than 3 months but less than 12 months	42	9	39
	1,203	834	1,035

As at 31 December, 2004, the Group and the Company had an amount due from a fellow subsidiary of RMB52 million (2003: RMB54 million) which was included in trade receivables.

All of the trade receivables are expected to be recovered within one year.

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand and deposits with Southern Airlines Group Finance Company Limited ("SA Finance"), a PRC authorised financial institution controlled by CSAHC and an associate of the Group. In accordance with the financial agreement dated 22 May, 1997 between the Company and SA Finance, all the Group's deposits accepted by SA Finance at 31 December, 2004 were simultaneously placed with several designated major PRC banks by SA Finance. As at 31 December, 2004, the Group's and the Company's deposits with SA Finance amounted to RMB406 million and RMB362 million respectively (2003: RMB366 million and RMB346 million respectively).

21 BANK AND OTHER LOANS

	THE GROUP		THE COMPANY
	2004	2003	2004
	RMB million	RMB million	RMB million
BANK LOANS DUE:			
Within one year	11,518	7,097	10,161
In the second year	1,626	646	1,476
In the third to fifth year, inclusive	6,422	1,224	5,283
After the fifth year	3,887	2,649	3,781
	23,453	11,616	20,701
OTHER LOANS DUE:			
In the second year	-	3	-
	23,453	11,619	20,701
Portion classified as current liabilities	(11,518)	(7,097)	(10,161)
	11,935	4,522	10,540

As at 31 December, 2004, bank loans of the Group and the Company totalling RMB8,620 million and RMB7,783 million respectively (2003: RMB4,902 million and RMB3,823 million respectively) were secured by mortgages over certain of the Group's and the Company's aircraft with carrying amount of RMB11,927 million and RMB10,179 million respectively (2003: RMB6,718 million and RMB4,938 million respectively).

As at 31 December, 2004, loans to the Group and the Company from SA Finance amounted to RMB256 million and RMB76 million respectively (2003: RMB120 million and RMB 120 million respectively).

As at 31 December, 2004, certain bank loans were guaranteed by the following parties:

	THE GROUP		THE COMPANY
	2004	2003	2004
	RMB million	RMB million	RMB million
Industrial Commercial Bank of China	149	-	149
Export-Import Bank of the United States	1,732	2,208	969
Bank of China	291	357	53
CSAHC	2,452	359	1,812
Guangzhou Baiyun International Airport Company Limited	-	63	-
Shenzhen Yingshun Investment Development Company Limited	-	21	-
SA Finance	9	10	-

	4,633	3,018	2,983

Details of bank and other loans with original maturity over one year are as follows:

INTEREST RATES AND FINAL MATURITY

	THE GROUP		THE COMPANY	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RMB m
(i) RENMINBI DENOMINATED LOANS				
Fixed interest rates ranging from 4.80% to 6.03% per annum as at 31 December, 2004, with maturities through 2009.	1,628	-	135	
Non-interest bearing loan from a municipal government authority, repayable in 2005.	3	3	-	
Floating interest rates ranging from 4.94% to 5.76% per annum as at 31 December, 2004, with maturities through 2014.	1,217	76	1,217	
(ii) US DOLLARS DENOMINATED LOANS				
Floating interest rates ranging from 3 months LIBOR+0.65% to 0.9% per annum as at 31 December, 2004, with maturities through 2011.	1,426	-	1,426	
Floating interest rates ranging from 6 months LIBOR+0.3% to 1.2% per annum as at 31 December, 2004, with maturities through 2014.	6,578	2,505	6,578	
Fixed interest rates ranging from 2.18% to 8.35% per annum as at 31 December, 2004, with maturities through 2011.	2,676	2,626	2,326	

	13,528	5,210	11,682
Less: Loans due within one year classified as current liabilities	(1,593)	(688)	(1,142)
	11,935	4,522	10,540

As at 31 December, 2004, bank and other loans of the Group and the Company included short-term bank loans totalling RMB9,925 million and RMB9,019 million respectively (2003: RMB6,409 million and RMB5,578 million respectively). On such date, the Group's and the Company's weighted average interest rate on short-term borrowings were 1.60% and 1.56% per annum respectively (2003: 1.76% and 1.65% per annum respectively).

As at 31 December, 2004, the Group had banking facilities with several PRC commercial banks for providing loan finance up to an approximate amount of RMB35,750 million (2003: RMB9,860 million). As at 31 December, 2004, an approximate amount of RMB11,525 million (2003: RMB4,412 million) was utilised.

22 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2005 to 2013. As at 31 December, 2004, future payments under these finance leases, which were 67% and 33% respectively (2003: 74% and 26% respectively) denominated in United States dollars and Japanese yen, are as follows:

	THE GROUP AND THE COMPANY				
		2004			2003
	OBLIGATIONS	PAYMENTS	INTEREST	OBLIGATIONS	PAYMENTS
	RMB million	RMB million	RMB million	RMB million	RMB million
Balance due:					
Within one year	2,144	2,580	436	1,298	1,648
In the second year	2,863	3,213	350	1,066	1,357
In the third to fifth year, inclusive	6,044	6,540	496	3,909	4,348
After the fifth year	692	722	30	568	608
	11,743	13,055	1,312	6,841	7,961
Less: Balance due within one year classified as current liabilities	(2,144)			(1,298)	

	9,599	5,543

Certain lease financing arrangements comprised finance leases between the Company and certain of its subsidiaries, and corresponding borrowings between such subsidiaries and banks. The Company has guaranteed the subsidiaries' obligations under the bank borrowings and accordingly, the relevant leased assets and obligations are recorded in the Company's balance sheet to reflect the substance of the transactions. The future payments under these leases have therefore been presented by the Company and the Group in amounts that reflect the payments under the bank borrowings between the subsidiaries and banks.

Under the terms of the leases, the Group has an option to purchase, at or near the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessor's defined cost of the aircraft.

Security, including charges over the assets concerned and relevant insurance policies, is provided to the lessors.

As at 31 December, 2004, certain of the Group's and the Company's aircraft with carrying amount of RMB11,635 million (2003: RMB7,858 million) were mortgaged to secure facilities with financial institutions granted to lessors totalling RMB11,743 million (2003: RMB6,841 million).

23 AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies, which represent balances with CSAHC and its affiliates, and the Group's associates and jointly controlled entities, are unsecured, interest free and repayable within one year (Note 28).

24 TRADE PAYABLES

An ageing analysis of trade payables is set out below:

	THE GROUP		THE COMP
	2004	2003	2004
	RMB million	RMB million	RMB million
Due within 1 month or on demand	599	279	505
Due after 1 month but within 3 months	430	278	370
Due after 3 months but within			

6 months	525	371	445
	1,554	928	1,320

As at 31 December, 2004, the Group and the Company had an amount due to a fellow subsidiary of RMB838 million (2003: RMB693 million) which was included in trade payables.

All of the trade payables are expected to be settled within one year.

25 PROVISION FOR MAJOR OVERHAULS

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	THE GROUP		THE COMPA
	2004	2003	2004
	RMB million	RMB million	RMB million
Balance at 1 January,	200	194	131
Provision for the year	89	68	47
Through the CNA/XJA Acquisitions	70	-	70
Amount utilised	-	(62)	-
Balance at 31 December,	359	200	248
Less: Current portion included in accrued expenses	(75)	(11)	(62)
	284	189	186

26 SHARE CAPITAL

	2004
	RMB million
Registered capital:	
2,200,000,000 domestic shares of RMB1.00 each	2,200
1,174,178,000 H shares of RMB1.00 each	1,174
1,000,000,000 A shares of RMB1.00 each	1,000

	4,374
Issued and paid up capital:	
2,200,000,000 domestic shares of RMB1.00 each	2,200
1,174,178,000 H shares of RMB1.00 each	1,174
1,000,000,000 A shares of RMB1.00 each	1,000
	4,374

In July 2003, the Company issued 1,000,000,000 A shares with a par value of RMB1.00 each at an issue price of RMB2.70 by way of a public offering to natural persons and institutional investors in the PRC. The share premium received by the Company, net of the issuance costs of RMB59 million, amounted to RMB1,641 million and was credited to share premium account.

All the domestic, H and A shares rank pari passu in all material respects.

27 RESERVES

		THE GROUP		THE COMPANY	
		2004	2003	2004	
	Note	RMB million	RMB million	RMB million	RMB
SHARE PREMIUM					
Balance at 1 January		5,325	3,684	5,325	
Share premium from issuance of shares, net of related issuance costs		-	1,641	-	
Balance at 31 December		5,325	5,325	5,325	
STATUTORY SURPLUS RESERVE	(a)				
Balance at 1 January		361	337	339	
Transfer from income statement		41	24	10	
Balance at 31 December		402	361	349	

STATUTORY PUBLIC WELFARE FUND	(b)			
Balance at 1 January		173	172	172
Transfer from income statement		20	1	5
Balance at 31 December		193	173	177
DISCRETIONARY SURPLUS RESERVE	(c)			
Balance at 1 January and 31 December		77	77	77
RETAINED EARNINGS				
Balance at 1 January		1,586	1,969	(138)
Loss for the year		(48)	(358)	(169)
Appropriations to reserves		(61)	(25)	(15)
Balance at 31 December		1,477	1,586	(322)
TOTAL		7,474	7,522	5,606

Notes:

(a) According to the PRC Company Law and the Articles of Association of the Company and certain of its subsidiaries, the Company and the relevant subsidiaries are required to transfer 10% of their annual net profits after taxation, as determined under relevant PRC accounting regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(b) According to the PRC Company Law and the Articles of Association of the Company and certain of its subsidiaries, the Company and the relevant subsidiaries are required to transfer between 5% and 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's and the relevant subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(c) The usage of this reserve is similar to that of statutory surplus reserve.

(d) Under PRC Company Law and the Company's Articles of Association, the net profit after taxation as reported in the PRC statutory financial statements of the Company can only be distributed as dividends after allowances have been made for:

(i) making up cumulative prior years' losses, if any;

(ii) allocations to the statutory surplus reserve of at least 10% of after-tax profit, until the fund aggregates to 50% of the Company's registered capital;

(iii) allocations of 5% to 10% of after-tax profit to the Company's statutory public welfare fund; and

(iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

Pursuant to the Articles of Association of the Company, the net profit of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting regulations and (ii) the net profit determined in accordance with IFRS; or if the financial statements of the Company are not prepared in accordance with IFRS, the accounting standards of one of the countries in which its shares are listed. As at 31 December, 2004 the Company did not have any distributable reserves (2003: Nil).

28 RELATED PARTY TRANSACTIONS

The Group obtained various operational and financial services provided by CSAHC and its affiliates, and the Group's associates and jointly controlled entities during the normal course of its business.

The following is a summary of significant transactions carried out in the normal course of business between the Group, CSAHC and its affiliates, and the Group's associates and jointly controlled entities during the year:

	Note	2004	
		RMB million	RM

EXPENSES		
PAID TO CSAHC AND ITS AFFILIATES		
Handling charges	(a)	33
Wet lease rentals	(b)	-
Sundry aviation supplies	(c)	66
Commission expense	(d)	2
Air catering expense	(e)	50
Housing benefits	(f)	85
Lease charges for land and buildings	(g)	18
PAID TO ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		
Repairing charges	(h)	1,159
Flight simulation service charges	(i)	100
Interest expense	(j)	3
INCOME		
RECEIVED FROM ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		
Interest income	(k)	4
Rental income	(l)	34
OTHERS		
Short term advances from CSAHC	(m)	-
Refund of medical benefit payments	(n)	-
CNA/XJA Acquisitions	(o)	15,522
		======

Notes:

(a) Handling charges represent fees payable to Southern Airlines (Group) Import and Export Trading Company, a wholly owned subsidiary of CSAHC, in connection with the procurement of aircraft and flight equipment on the Group's behalf. Handling charges are calculated based on a fixed percentage of the purchase value and other charges.

(b) Wet lease rentals in 2003 represented rentals payable to Xinjiang Airlines Company, a subsidiary of CSAHC, pursuant to a wet lease agreement in respect of a Boeing 757-200 aircraft effective from October 2002. The wet lease agreement was terminated in April 2003.

(c) Sundry aviation supplies represent purchases of aviation supplies from Southern Airlines (Group) Economic Development Company, a subsidiary of CSAHC. Prices charged by this supplier to the Group are similar to those charged to other PRC airlines.

(d) Commission expense represents commissions payable to certain subsidiaries of CSAHC in connection with services provided in exchange for air tickets sold by them. These commissions are calculated based on a fixed rate ranging from 1.5% to 12% on the ticket value.

(e) Air catering expense represents purchases of inflight meals and related services from Shenzhen Air Catering Company Limited, a cooperative joint venture established in the PRC, in respect of which CSAHC is entitled to 33% of its profits after tax.

(f) Housing benefits represent a fixed annual fee payable to CSAHC in respect of the provision of quarters to the eligible employees of the Group (Note 29).

(g) Charges were paid to CSAHC under certain lease agreements in respect of certain land and buildings in the PRC (Note 10(c)).

(h) Repairing charges represent fees incurred by the Group in connection with aircraft repair and maintenance services rendered by Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO") and MTU Maintenance Zhuhai Co., Ltd. ("MTU Zhuhai"). GAMECO and MTU Zhuhai are jointly controlled entities of the Company.

(i) Flight simulation service charges represent fees incurred by the Group in connection with flight simulation services provided by Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a jointly controlled entity of the Company.

(j) Interest expense represents interest paid to loans from SA Finance. The applicable interest rate in determined in accordance with borrowing rate published by the PRC (Note 21).

(k) Interest income represents interest received from deposits placed with SA Finance. The applicable interest rate is determined in accordance with the deposit rate published by the PRC (Note 20).

(l) Rental income represents rental received under certain operating lease agreements where the Company leases certain flight training facilities and buildings to Zhuhai Xiang Yi (Note 10(f)).

(m) During 2003, CSAHC made short term advances to the Group. These advances were unsecured, interest free and fully repaid in 2004.

(n) Prior to 1 January, 2002, the Group paid a fixed annual fee to CSAHC in return for CSAHC providing medical benefit, transportation subsidies and other welfare facilities to the retirees of the Group. Such arrangement was terminated on 1 January, 2002. During 2003, CSAHC refunded to the Group the difference between the aggregate fixed annual fees received from the Group and the aggregate cost of services incurred by CSAHC under the above agreement.

(o) As disclosed in Note 1 to the financial statements, on 31 December, 2004 the Company acquired the airline operations and certain related assets of CNA and XJA at a total consideration of RMB15,522 million, which was partly satisfied by assumption of debts and liabilities of CNA and XJA totalling RMB13,563 million outstanding as at that date. The remaining consideration payable of RMB1,959 million will be satisfied in cash.

In addition to the above, certain business undertakings of CSAHC also provided hotel and other services to the Group during the year. The total amount involved is not material to the results of the Group for the year.

The directors of the Company are of the opinion that the above transactions with related parties were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

29 RETIREMENT AND HOUSING BENEFITS

Employees of the Group participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at the rates ranging from 14% to 20% (2003: 14% to 19%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits equal to a fixed proportion of the salary at the retirement date. The retirement benefit obligations of all existing and future retired staff of the Group are assumed by these schemes.

In addition, the Group was selected as one of the pilot enterprises to establish a supplementary defined contribution retirement scheme for the benefit of employees. In this connection, employees of the Group participate in a supplementary defined contribution retirement scheme whereby the Group is required to make defined contributions at a rate of 4.5% of total salaries. The Group has no obligation for the payment of pension benefits beyond the contributions described above. Contributions to the retirement schemes are charged to the income statement as and when incurred.

Furthermore, pursuant to the comprehensive services agreement (the "Services Agreement") dated 22 May, 1997 between the Company and CSAHC, CSAHC agrees to provide adequate quarters to eligible employees of the Group as and when required. In return, the Group agrees to pay a fixed annual fee of RMB85 million to CSAHC for a ten-year period effective 1 January, 1995.

Pursuant to an additional staff housing benefit scheme effective September 2002, the Group agreed to pay lump sum housing allowances to certain employees who have not received quarters from CSAHC or the Group according to the relevant PRC housing reform policy, for subsidising their purchases of housing. Such expenditure has been deferred and amortised on a straight line basis over a period of 10 years, which represents the vesting benefit period of the employees. An employee who quits prior to the end of the vesting benefit period is required to pay back a portion of the lump sum housing benefits determined on a pro-rata basis of the vesting benefit period. The Group has the right to effect a charge on the employee's house and to enforce repayment through selling the house in the event of default in repayment. Any shortfall in repayment would be charged against income statement. As at 31 December, 2004, the Group already made payments totalling RMB191 million (2003: RMB130 million) under the scheme and recorded its remaining contractual liabilities totalling RMB69 million (2003: RMB130 million) as accrued expenses on its balance sheet. Housing allowances are payable when applications are received from eligible employees.

30 COMMITMENTS

(a) CAPITAL COMMITMENTS

As at 31 December, 2004, the Group and the Company had capital commitments as follows:

	THE GROUP		THE COMPA
	2004	2003	2004
	RMB million	RMB million	RMB million
Commitments in respect of aircraft and related equipment (Note)			
- authorised and contracted for	11,776	10,615	10,121
- authorised but not contracted for	13,571	-	13,571
	25,347	10,615	23,692
Commitments in respect of investments in the Guangzhou new airport			
- authorised and contracted for	110	617	110
- authorised but not contracted for	714	1,455	714
	824	2,072	824
Other commitments			
- authorised and contracted for	132	233	117
- authorised but not contracted for	568	708	200
	700	941	317
	26,871	13,628	24,833

Note: As at 31 December, 2004, the Group had on order five Boeing 737-700 aircraft, six Airbus 319-100 aircraft, fifteen Airbus 320-200 aircraft, two Airbus 321-200 aircraft, four Airbus 330-200 aircraft, one Embraer ERJ-145 aircraft and certain flight equipment, scheduled for deliveries in 2005 to 2007. Deposits of RMB4,640 million have been made towards the purchase of these aircraft and related equipment. As at 31 December, 2004, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment are as follows:

THE GROUP		THE COMPAN
2004	2003	2004

	RMB million	RMB million	RMB million	RM
Year ended/ending 31 December				
2004	-	4,585	-	
2005	8,748	6,030	7,093	
2006	2,996	-	2,996	
2007	32	-	32	
	11,776	10,615	10,121	

As at 31 December, 2004, the Group's and the Company's attributable share of the capital commitments of jointly controlled entities was as follows:

	2004	
	RMB million	RM
Authorised and contracted for	-	
Authorised but not contracted for	156	
	156	

(b) OPERATING LEASE COMMITMENTS

As at 31 December, 2004, commitments under non-cancellable aircraft and flight equipment operating leases were as follows:

	THE GROUP		THE COMPAN	
	2004	2003	2004	
	RMB million	RMB million	RMB million	RM
Payments due				
Within one year	1,761	1,483	1,488	
In the second to fifth year, inclusive	9,207	4,248	8,602	
After the fifth year	1,782	2,389	1,761	
	12,750	8,120	11,851	

(c) INVESTING COMMITMENTS

At 31 December, 2004, the Group and the Company committed to make capital contributions in respect of:

	2004	
	RMB million	RM
Subsidiaries	181	
Jointly controlled entities	83	
	264	

31 CONTINGENT LIABILITIES

(a) Pursuant to the Reorganisation of CSAHC effected in 1995 (Note 1), the Company assumed the airline and airline-related businesses together with the relevant assets and liabilities from CSAHC. The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the businesses assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by CSAHC prior to the Reorganisation. There are not, however, any definitive PRC regulations or other pronouncements confirming such conclusion.

(b) The Group leases from CSAHC certain land in Guangzhou and certain land and buildings in Wuhan, Haikou and Zhengzhou. The Group has a significant investment in buildings and other leasehold improvements located on such land. However, such land in Guangzhou and such land and buildings in Wuhan, Haikou and Zhengzhou lack adequate documentation evidencing CSAHC's rights thereto.

With respect to the facilities in Guangzhou, CSAHC has received written assurance from the CAAC to the effect that CSAHC is entitled to continued use and occupancy of the land in Guangzhou. The Company understands that the CAAC is basing its conclusion on an agreement among certain government authorities relating to such land. Such assurance does not constitute formal evidence of CSAHC's right to transfer, mortgage or lease such real property interests. The Group cannot predict the magnitude of the effect on its financial condition or results of operations to the extent that their uses of one or more of these parcels of land or the related facilities were successfully challenged. CSAHC has agreed to indemnify the Group against any loss or damage caused by any challenge or interference with the Group's use of any of its land and buildings.

(c) The Company is involved in a civil litigation (Hong Kong High Court Action No. 515 of 2001) ("Litigation") which commenced in 2003. According to the writ of summons for the Litigation, New

Link Consultants Limited, the plaintiff claimed unspecified damages against the Group (as one of the defendants to the Litigation) for breach of the agreement on the basis of certain evidence proving that United Aero-Supplies System of China, Limited ("UASSC") entered into an agreement with the defendants for exclusive purchase of aviation equipment consigned to UASSC for sale and, that as the defendants failed to perform the agreement, UASSC should have the right to compensation. Since UASSC is in the course of its winding up proceedings, all the rights and benefits of UASSC in connection with the claim have been transferred to the plaintiff. Based on the opinion given by the Company's legal advisors, the directors of the Company consider that the Company has a valid defence against the claim and that a provision for such claim and/or the associated legal costs is not required.

32 FINANCIAL STATEMENTS

Financial assets of the Group include cash and cash equivalents, trade receivables, other receivables and short-term investments. Financial liabilities of the Group include bank and other loans, amounts due to related companies, trade payables, bills payable, other liabilities and taxes payable.

LIQUIDITY RISK

As at 31 December, 2004, the Group's net current liabilities amounted to RMB18,855 million (2003: RMB10,792 million). For the year ended 31 December, 2004, the Group recorded a net cash inflow from operating activities of RMB3,596 million (2003: RMB2,129 million), a net cash outflow from investing activities and financing activities of RMB2,593 million (2003: RMB3,819 million) and an increase in cash and cash equivalents of RMB1,003 million (2003: decrease of RMB1,690 million).

In 2005 and thereafter, 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. The Group has obtained firm commitments from its principal bankers to renew its short-term bank loans outstanding at 31 December, 2004 when they fall due during 2005. In relation to its future capital commitments and other financing requirements, the Group has already entered into loan financing agreements with several PRC banks to provide loan finance up to an approximate amount of RMB24,225 million during 2005 and thereafter. The directors of the Company believe that such financing will be available to the Group.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December, 2005. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan finance which may impact the operations of the Group during the next twelve-month period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

BUSINESS RISK

The Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the CAAC over many aspects of its operations, and competition, in the passenger, cargo and mail airlines services industry.

INTEREST RATE RISK

The interest rates and maturity information of the Group's bank and other loans, and maturity information of the Group's finance lease obligations are disclosed in Notes 21 and 22 respectively.

FOREIGN CURRENCY RISK

The Group has significant exposure to foreign currency as substantially all of the Group's lease obligations and bank loans are denominated in foreign currencies, principally US dollars, and to a lesser extent, Japanese Yen. Depreciation or appreciation of the Renminbi 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, entering into forward foreign exchange contracts with authorised PRC banks.

CREDIT RISKS

Substantially all of the Group's cash and cash equivalents are deposited with PRC financial institutions.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlement Plan ("BSP"), a clearing scheme between airlines and sales agents organised by International Air Transportation Association. As of 31 December, 2004, the balance due from BSP agents amounted to RMB411 million (2003: RMB446 million).

SELF INSURANCE RISK

The Group maintains a limited amount of property insurance in respect of certain personal and real property.

FAIR VALUE

The carrying amounts and estimated fair values of significant financial assets and liabilities at 31 December, 2003 and 2004 are set out below:

	2004		2003	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	F
	RMB million	RMB million	RMB million	RM
THE GROUP				
Cash and cash equivalents	3,083	3,083	2,080	
Trade receivables	1,203	1,203	834	
Other receivables	616	616	296	
Short-term investments	683	683	-	
Bank and other loans	23,453	23,665	11,619	
Amounts due to related companies	2,330	2,330	929	
Trade payables	1,554	1,554	928	
Bills payable	136	136	438	
Other liabilities	2,974	2,974	1,020	
Taxes payable	39	39	90	

	2004		2003	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	F
	RMB million	RMB million	RMB million	RM
THE COMPANY				
Cash and cash equivalents	2,302	2,302	1,405	
Trade receivables	1,035	1,035	683	
Other receivables	391	391	222	
Short-term investments	502	502	-	
Bank and other loans	20,701	20,862	9,629	
Amounts due to related companies	2,278	2,278	871	
Trade payables	1,320	1,320	746	
Bills payable	136	136	438	
Other liabilities	2,467	2,467	854	
Taxes payable	-	-	48	

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The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

(i) Cash and cash equivalents, trade receivables, other receivables, short-term investments, amounts due to related companies, trade payables, bills payable, other liabilities and taxes payable

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) Bank and other loans

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

The economic characteristics of the Group's leases vary from lease to lease. It is impractical to compare such leases with those prevailing in the market within the constraints of timeliness and cost for the purpose of estimating the fair value of such leases. Other investments represent unquoted available-for-sale equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

3 SEGMENTAL INFORMATION

The Group operates principally as a single business segment for the provision of air transportation services. The analysis of turnover and operating profit by geographical segment is based on the following criteria:

(i) Traffic revenue from domestic services within the PRC (excluding Hong Kong) is attributed to the domestic operation. Traffic revenue from inbound/outbound services between the PRC and Hong Kong, and the PRC and overseas destinations is attributed to the Hong Kong regional operation and international operation respectively.

(ii) Other revenue from ticket selling, general aviation and ground services, air catering and other miscellaneous services is attributed on the basis of where the services are performed.

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

	DOMESTIC	HONG KONG REGIONAL	*INTERNATIONAL	
	RMB million	RMB million	RMB million	RM
2004				
Traffic revenue	17,742	1,180	4,422	
Other operating revenue	630	-	-	
Turnover	18,372	1,180	4,422	
Operating profit	650	67	192	
2003				
Traffic revenue	13,087	808	3,070	
Other operating revenue	436	-	69	
Turnover	13,523	808	3,139	
Operating profit/(loss)	440	(29)	45	

* Mainly routes between the PRC and Asian countries, the United States of America, the Netherlands, Belgium, Australia and France.

The major revenue-earning assets of the Group are its aircraft fleet, most of which are registered in the PRC. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets to geographic segments. Substantially all of the Group's non-aircraft identifiable assets are located in the PRC.

34 RECONCILIATION AND SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION

(a) THE RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION AND MINORITY INTERESTS TO CASH INFLOWS FROM OPERATIONS IS AS FOLLOWS:

	2004	
	RMB million	RMB m
Profit/(loss) before taxation and minority interests	233	
Depreciation and amortisation of property, plant and equipment	2,363	
Other amortisation	50	
Amortisation of deferred credits	(4)	
Share of associates' results	(12)	
Share of jointly controlled entities' results	5	
Loss on disposal of property, plant and equipment	1	
Interest income	(22)	
Interest expense	725	
Net realised and unrealised gain on equity securities held for trading	(15)	
Unrealised exchange loss, net	42	
(Increase)/decrease in inventories	(29)	
Increase in trade receivables	(218)	
(Increase)/decrease in other receivables	(166)	
Increase in prepaid expenses and other assets	(31)	
Increase in deferred expenditure	(2)	
(Decrease)/increase in amounts due to related companies	(586)	
Increase in trade payables	344	
Decrease in bills payable	(374)	
Increase in sales in advance of carriage	408	
Increase in accrued expenses	507	
Increase in other liabilities	1,223	
Increase in provision for major overhauls	113	
Cash inflows from operations	4,555	

(b) EFFECT OF THE CNA/XJA ACQUISITIONS

	RM
Assets acquired:	
Property, plant and equipment	
Cash and cash equivalents	
Trade receivables	
Inventories	
Other	
Liabilities assumed:	
Bank and other loans	
Obligations under finance leases	
Trade payables	
Accrued expenses	
Other	
Net identifiable assets and liabilities	
Cash consideration payable and not yet settled	
Net cash inflow from acquisitions - cash and cash equivalents acquired	

35 ULTIMATE HOLDING COMPANY

The directors of the Company consider the ultimate holding company to be CSAHC, a state-owned enterprise established in the PRC.

36 SUBSEQUENT EVENTS

In January 2005, the Company, as a lessee, entered into an agreement with an independent lessor for operating leases of nine Boeing 737-800 aircraft for a term of seven years with total future lease payments totalling approximately RMB1,721 million, scheduled for deliveries in 2005 and 2006.

In January 2005, China Aviation Supplies Import and Export Corporation, as a sole importing agent, entered into, on behalf of several PRC airlines including the Group, a general purchase agreement with the Boeing Company for the import of Boeing B7E7 aircraft. The Company, being one of the ultimate users for thirteen of the Boeing B7E7 aircraft, endorsed the general purchase agreement. The Company is currently in negotiation with the Boeing Company regarding the purchase agreements on such aircraft.

In March 2005, the Company, as a lessee, entered into another agreement with an independent lessor for operating leases of a total of twenty-five aircraft comprising five Boeing 737-700 aircraft, five Boeing 737-800 aircraft, five Airbus 320-200 aircraft and ten Airbus 321-200 aircraft with scheduled deliveries in 2006 and 2007. The term of the lease ranges from ten to twelve years with total future lease payments totalling approximately RMB8,243 million.

In April 2005, the Company entered into a purchase agreement with Airbus SNC for the purchase of five Airbus A380 aircraft, scheduled for deliveries in 2007 to 2010.

37 SUBSIDIARIES

The particulars of the Company's principal subsidiaries at 31 December, 2004 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT	INDIRECT	ISSUED REGISTERE CAPITAL
		%	%	
Guangxi Airlines Company Limited (a)	PRC 28 April, 1994	60	-	170,900,0
Southern Airlines (Group) Shantou Airlines Company Limited (a)	PRC 20 July, 1993	60	-	280,000,0
Zhuhai Airlines Company Limited (a)	PRC 8 May, 1995	60	-	250,000,0
Xiamen Airlines Company Limited (a)	PRC 11 August, 1984	60	-	700,000,0
Guizhou Airlines Company Limited (a)	PRC 12 November, 1991	60	-	80,000,0
Guangzhou Air Cargo Company Limited (a)	PRC 31 March, 2004	70	-	238,000,0
Guangzhou Baiyun International Logistic Company Ltd (a)	PRC 23 July, 2002	61	-	20,000,0
Guangzhou Nanland Air Catering Company Limited (b)	PRC 21 November, 1989	51	-	55,980,0
China Northern Airlines Aircraft	PRC	75	-	US$3,800,0

Maintenance Co., Ltd (a)	8 November, 1997			
Xinjiang Aviation Ground Service Company Ltd (a)	PRC 27 May, 2002	60	-	15,000,0
China Southern West Australian Flying College Pty Limited	Australia 26 January, 1971	65	-	A$100,0
Xinjiang Civil Aviation Property Management Limited (a)	PRC 12 December, 2002	51.8	-	251,332,8
Guangzhou Aviation Hotel (a)	PRC 8 January, 1997	90	-	63,290,0
South China International Aviation & Travel Services Company (a)	PRC 11 May, 1992	90	-	2,100,0
CZ Flamingo Limited	Cayman Islands 8 December, 1993	100	-	US$1,0
CZ Skylark Limited	Cayman Islands 17 November, 1993	100	-	US$1,0
CZ Kapok Limited	Cayman Islands 26 October, 1993	100	-	US$1,0

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT	ATTRIBUTABLE EQUITY INTEREST INDIRECT	ISSUED REGISTERE CAPITAL
		%	%	
CSA-I Limited	Cayman Islands 1 September, 1993	100	-	US$1,00
CZ93B Limited	Cayman Islands 11 May, 1993	100	-	US$1,00
CZ97A Limited	Cayman Islands 2 January, 1997	100	-	US$1,00
Zhong Yuan 99A Limited	Cayman Islands 15 February, 1999	100	-	US$1,00
CXA92A Limited	Cayman Islands 3 August, 1992	-	60	US$1,00

CXA93A Limited	Cayman Islands 1 July, 1993	-	60	US$1,00
CXA95B Limited	Cayman Islands 7 July, 1995	-	60	US$1,00
CXA95C Limited	Cayman Islands 16 October, 1995	-	60	US$1,00
CXA98A Limited	Cayman Islands 20 March, 1998	-	60	US$1,00
Xiamen Aviation Property Development Company (a)	PRC 22 June, 1993	-	60	5,000,00
Xiamen Aviation Supplies Limited (a)	PRC 30 July, 1997	-	60	8,560,00
Xiamen Aviation Development Company Limited (a)	PRC 18 February, 1998	-	54	5,000,00
Xiamen Air Holidays Limited	Hong Kong 28 April, 1994	-	54H	K$3,000,00
Xiamen Macau Holidays Limited	Macau 11 May, 1995	-	27.5	MOP 1,000,00
Shantou Hua Kang Air Catering Company Ltd (a)	PRC 22 June, 1994	-	42	10,000,00

\#   Expressed in RMB, unless otherwise stated

(a)   These subsidiaries are PRC limited companies.

(b)   These subsidiaries are Sino-foreign equity joint venture companies.

38 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The particulars of the Group's principal associates and jointly controlled entities as at 31 December, 2004 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST		ISSUED REGISTERE CAPITAL
		DIRECT	INDIRECT	
		%	%	
Guangzhou Aircraft Maintenance Engineering Company Limited*	PRC 28 October, 1989	50	-	US$27,500,0
Southern Airlines Group Finance Company Limited	PRC 28 June, 1995	32	15.42	424,330,0
Hainan Phoenix Information System Limited	PRC 12 March, 1994	45	-	US$16,360,0
Hong Kong Business Aviation Centre Company Limited	Hong Kong 7 January, 1998	20	-	HK$1,000,0
Sichuan Airlines Corporation Limited	PRC 28 August, 2002	39	-	350,000,0
MTU Maintenance Zhuhai Co. Ltd.*	PRC 6 April, 2001	50	-	US$63,100,0
China Postal Airlines Limited*	PRC 25 November, 1996	49	-	306,000,0
Zhuhai Xiang Yi Aviation Technology Company Limited*	PRC 10 July, 2002	51	-	US$29,800,0
CSN-ETC e-commerce Limited*	PRC 7 October, 2002	51	-	5,880,0
Beijing Ground Service Company Limited*	PRC 1 April, 2004	50	-	18,000,0
Southern Airlines Advertising Company Limited	PRC 3 March, 1994	45	-	5,000,0

Expressed in RMB, unless otherwise stated

* These are jointly controlled entities

III INDEBTEDNESS

As at the close of business on 30 April, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had bank and other loans of approximately RMB25,584,160,000 and finance lease obligations of approximately RMB12,902,839,000.

As at 30 April, 2005, certain bank loans of the Group were secured by certain aircraft with an aggregate carrying amount of RMB10,572,534,000. Finance lease obligations were secured by the related leased aircraft with an aggregate carrying amount of RMB13,684,018,000. In addition, bank loans of RMB1,997,107,000 were also guaranteed by certain banks.

IV STATEMENT ON FINANCIAL LIABILITIES

Save as aforesaid or otherwise disclosed in Note 31 to the Financial Statements of the Company as set out in part II of this Appendix I and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding, as at the close of business on 30 April, 2005, mortgages, charges, liabilities or any term loans or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and loans, debt securities or similar indebtedness, or any hire-purchase or finance lease commitments, or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 April, 2005 and up to the Latest Practicable Date.

V EFFECT

The Company's principal business is that of civil aviation. Following the Transactions, the Company's passenger volume is expected to increase and operating cost per available seat kilometres is expected to decrease. As a result, the Group's earnings are expected to be better off. The Group therefore considered that the Transactions are in the best interest of the Group. In addition, there will be no material change to the Group's net assets as the Transactions will be wholly financed through commercial loans by commercial banks.

VI MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December, 2004 (being the date to which the latest published audited financial statements of the Company were made up).

VII WORKING CAPITAL

Taking into account the present internal resources and the available banking facilities of the Group, the Directors are of the opinion that the Group has adequate working capital for its present requirements.

VIII MANAGEMENT DISCUSSION AND ANALYSIS

2004 COMPARED WITH 2003

The Group recorded a net loss of RMB48 million for 2004, as compared to a net loss of RMB358 million for 2003. The Group's operating revenue increased by RMB6,504 million or 37.2% from RMB17,470 million in 2003 to RMB23,974 million in 2004. Passenger load factor increased by 4.6 percentage point from 64.6% in 2003 to 69.2% in 2004. Passenger yield (in passenger revenue per RPK) remain steady and at RMB 0.57 in both years. Average yield (in traffic revenue per RTK) increased by 5.3% from RMB4.76 in 2003 to RMB5.01 in 2004. Operating expenses increased by RMB6,051 million or 35.6% from RMB17,014 million in 2003 to RMB23,065 million in 2004. As operating revenue increased more than operating expenses, operating profit increased by 99.3% from RMB456 million in 2003 to RMB909 million in 2004. The Group's net non-operating expenses decreased by 30.1%, from RMB967 million in 2003 to RMB676 million in 2004, mainly attributable to a decrease in unfavourable movement in foreign exchange differences of RMB105 million and a decrease in interest expense of RMB133 million. Overall, the Group recorded a net loss of RMB48 million in 2004, as compared to a net loss of RMB358 million in 2003.

Operating revenue

Substantially all of the Group's operating revenue is attributable to airline and airline related operations. Traffic revenue in 2004 and 2003 accounted for 97.4% and 97.1% respectively of total operating revenue. Passenger revenue and, cargo and mail revenue accounted for 90.4% and 9.6% respectively of total traffic revenue in 2004. The balance of the Group's operating revenue is derived from commission income, income from general aviation operations, fees charged for ground services rendered to other Chinese airlines and air catering services.

Operating revenue increased by 37.2% from RMB17,470 million in 2003 to RMB23,974 million in 2004. This increase was primarily due to a 40.6% rise in passenger revenue from RMB15,010 million in 2003 to RMB21,100 million in 2004 resulting from increased traffic volume. The total number of passengers carried increased by 37.8% to 28.2 million passengers in 2004. RPKs increased by 41.0% from 26,387 million in 2003 to RMB37,196 million in 2004, primarily as a result of an increase in passengers carried. Passenger yield remained constant at RMB0.57.

Domestic passenger revenue, which accounted for 79.9% of the total passenger revenue in 2004, increased by 37.8% from RMB12,242 million in 2003 to RMB16,869 million in 2004. Domestic passenger traffic in RPKs increased by 36.8%, mainly due to an increase in passengers carried. Passenger yield remained steady in 2004 and at RMB0.58.

Hong Kong passenger revenue, which accounted for 5.3% of total passenger revenue, increased by 47.2% from RMB750 million in 2003 to RMB1,104 million in 2004. For Hong Kong regional flights, passenger traffic in RPKs increased by

54.6%, while passenger capacity in ASKs increased by 40.8%, resulting in a 5.6 percentage point increase in passenger load factor from 2003. Passenger yield decreased from RMB0.96 in 2003 to RMB0.92 in 2004 mainly due to intensified competition among airlines.

International passenger revenue, which accounted for 14.8% of total passenger revenue, increased by 55.0% from RMB2,018 million in 2003 to RMB3,127 million in 2004. For international flights, passenger traffic in RPKs increased by 59.3%, while passenger capacity in ASKs increased by 52.1%, resulting in a 2.9 percentage point rise in passenger load factor from 2003. Passenger yield decreased by 2.1% from RMB0.47 in 2003 to RMB0.46 in 2004 mainly resulted from the increases in traffic derived from long haul routes which generally had a lower yield than short haul routes.

Cargo and mail revenue, which accounted for 9.6% of the Group's total traffic revenue and 9.4% of total operating revenue, increased by 14.8% from RMB1,955 million in 2003 to RMB2,244 million in 2004. The increase was attributable to the increasing traffic demand.

Other operating revenue increased by 24.8% from RMB505 million in 2003 to RMB630 million in 2004. The increase was primarily due to the general growth in income from various auxiliary operations.

Operating expenses

Substantially all of the Group's operating expenses result from its airline operations. The vast majority of such expenses relate directly to flight operations, aircraft and traffic servicing, aircraft repair and maintenance and to depreciation and amortisation in respect of aircraft and flight equipment. Expenses associated directly with the Group's flight operations (collectively, "flight operations expenses") include fuel costs, operating lease payments, catering expenses, aircraft insurance, flight personnel payroll and welfare and training expenses. Expenses associated directly with repairs and maintenance in respect of the Group's aircraft (collectively, "repairs and maintenance expenses") include repairs and maintenance and overhaul charges, the costs of consumables and other maintenance materials and labour costs for maintenance personnel. Expenses associated directly with the Group's aircraft and traffic servicing operations (collectively "aircraft and traffic servicing expenses") include landing and navigation fees, rental payments and charges in respect of terminal and other ground facilities and labour costs for ground personnel. The balance of the Group's operating expenses result from promotional and marketing activities (collectively, "promotional and marketing expenses") such as sales commissions, fees for use of the CAAC's reservation system, ticket-printing and sales office expenses, advertising and promotional expenses, and from general and administrative expenses, such as administrative salaries and welfare and other personnel benefits and office expenses.

Total operating expenses in 2004 amounted to RMB23,065 million, representing an increase of 35.6% or RMB6,051 million over 2003, primarily due to the combined effect of increases in jet fuel costs, maintenance expenses and aircraft and traffic servicing expenses. Total operating expenses as a percentage of total operating revenue decreased from 97.4% in 2003 to 96.2% in 2004.

Flight operations expenses, which accounted for 45.2% of total operating expenses, increased by 47.4% from RMB7,070 million in 2003 to RMB10,418 million in 2004, primarily as a result of increases in jet fuel costs, operating lease payments, catering expenses, labour costs for flight personnel and inclusion of CAAC Infrastructure Development Fund of RMB466 million in operating expenses which is an usage charge since 2004 but was a turnover-based levy and deducted against the traffic revenue in 2003. Jet fuel costs, which accounted for 58.1% of flight operations expenses, increased by 56.5% from RMB3,867 million in 2003 to RMB6,050 million in 2004 mainly as a result of increased fuel prices and fuel consumption. Operating lease payments increased by 8.4% from RMB1,536 million in 2003 to RMB1,665 million in 2004, primarily due to the additional rental payments for new aircraft under operating leases. Catering expenses increased by 38.2% from RMB510 million in 2003 to RMB705 million in 2004, primarily due to increased passenger carried. Aircraft insurance costs decreased by 5.6% from RMB196 million in 2003 to RMB185 million in 2004, primarily because of a decrease in insurance premiums prescribed by the PRC insurance company. Labour costs for flight personnel increased by 40.9% from RMB728 million in 2003 to RMB1,026 million in 2004, largely due to the increase in flying hours.

Maintenance expenses which accounted for 15.0% of total operating expenses, increased by 33.6% from RMB2,589 million in 2003 to RMB3,459 million in 2004. The increase was primarily attributable to an 32.9% increase in aircraft overhaul charges from RMB2,377 million in 2003 to RMB3,158 million in 2004, as resulted from fleet expansion in recent years.

Aircraft and traffic servicing expenses, which accounted for 15.2% of total operating expenses, increased by 26.6% from RMB2,767 million in 2003 to RMB3,503 million in 2004. The increase primarily resulted from an 25.7% rise in landing and navigation fees from RMB2,563 million in 2003 to RMB3,222 million in 2004, due to an increase in number of landing and takeoffs.

Promotional and marketing expenses, which accounted for 8.4% of total operating expenses, increased by 31.1% from RMB1,480 million in 2003 to RMB1,940 million in 2004. The increase was due to 44.4% increase in labour costs from RMB225 million in 2003 to RMB325 million in 2004, as more payments of performance bonus were made because of the increased traffic volume.

General and administrative expenses, which accounted for 5.7% of the total operating expenses, increased by 25.6% from RMB1,053 million in 2003 to RMB1,323 million in 2004. This was mainly attributable to increased scale of operations.

Depreciation and amortisation, which accounted for 10.5% of total operating expenses, increased by 18.4% from RMB2,038 million in 2003 to RMB2,413 million in 2004. This increase was primarily as a result of the additions of aircraft during 2004.

Operating profit

Operating profit increased by 99.3% from RMB456 million in 2003 to RMB909 million in 2004. This was mainly because operating revenue increased by RMB6,504 million or 37.2% from 2003 and operating expenses increased by RMB6,051 million or 35.6% over the same period.

Non-operating income/(expenses)

Interest expense decreased by 16.1% from RMB824 million in 2003 to RMB691 million in 2004, mainly reflecting the combined effect of scheduled debt repayments and the replacement of certain RMB denominated bank loans of higher interest rates with US$ denominated bank loans of lower interest rates.

Interest income increased by 69.2% from RMB13 million in 2003 to RMB22 million in 2004. This was mainly attributable to an increase in average cash balances.

During 2004, the Group recorded a net exchange loss of RMB59 million (2003: RMB164 million) mainly from its Japanese yen denominated borrowings as a result of the Japanese yen appreciation. Such amount comprised mostly unrealised translational exchange loss.

Taxation

On 17 October, 2003, the Company's registered address was moved to Guangzhou Economic & Technology Development Zone, Guangzhou, China. In accordance with the Rules and Regulations for Implementation of Income Tax for Foreign Investment Enterprises and Foreign Enterprises of the PRC and a taxation approval document "Guangzhou Municipal State Tax Bureau Suo De Shui Zi Que 020043", the Company is entitled to enjoy the preferential tax policy implemented in the Guangzhou Economic & Technology Development Zone effective from 1 October, 2003. As a result, the Company's income tax rate has been changed from 33% to 15% beginning from that date.

In 2003, the Group recorded an income tax credit of RMB324 million resulting from reduction in net deferred taxation liability balance of RMB392 million. In 2004, income tax expense of RMB78 million was recorded.

Minority interests

Minority interests increased by 18.7% from RMB171 million in 2003 to RMB203 million in 2004, primarily reflecting the increased net profits earned by certain of the Group's airline subsidiaries for the year.

Liquidity, financial resources and capital structure

As at 31 December, 2004, the Group's borrowings totalled RMB35,196 million, representing an increase of RMB16,736 million from RMB18,460 million last year. Such borrowings were denominated, to a larger extent, in United States dollars and, to a smaller extent, in Japanese yen, Hong Kong dollars and Renminbi, with a significant portion being fixed interest rate borrowings. Of such borrowings, RMB13,662 million, RMB4,489 million, RMB6,705 million, RMB3,608 million and RMB6,732 million will be repayable in 2005, 2006, 2007, 2008, 2009 and thereafter respectively. As at 31 December, 2004, cash and cash equivalents of the Group totalling RMB3,083 million, of which 24.2% were denominated in foreign currencies, increased by 48.2% from RMB2,080 million last year.

Net debts (total borrowings net of cash and cash equivalents) increased by

96.1% to RMB32,113 million.

As at 31 December, 2004, the Group's shareholders' equity amounted to RMB11,848 million, representing a decrease of RMB48 million from RMB11,896 million last year.

Net debt/equity ratio of the Group at 31 December, 2004 was 2.71 times, as compared to 1.38 times last year.

Financial risk management policy

In the normal course of business, 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

As at 31 December, 2004, certain aircraft of the Group with an aggregate carrying value of approximately RMB23,562 million (2003: RMB14,576 million) were mortgaged under certain loan and lease agreements.

Commitments

At 31 December, 2004, the Group had capital commitments of approximately RMB26,871 million. Of such amounts, RMB25,347 million related to the acquisition of aircraft and related flight equipment and RMB824 million related to the Group's facilities and equipment to be constructed and installed at the new Guangzhou Baiyun International Airport. The remaining amount of RMB700 million was related to the Group's other airports and office facilities and equipment, overhaul and maintenance bases and training facilities.

As at 31 December, 2004, the Group committed to make a capital contribution of approximately RMB181 million and RMB83 million to its subsidiaries and to its jointly controlled entities respectively.

2003 COMPARED WITH 2002

The Group recorded a net loss of RMB358 million for 2003, as compared to a net profit of RMB576 million for 2002. The Group's operating revenue decreased by RMB549 million or 3.0% from RMB18,019 million in 2002 to RMB17,470 million in 2003. Passenger load factor decreased by 0.8 percentage point from 65.4% in 2002 to 64.6% in 2003. Passenger yield (in passenger revenue per RPK) increased by

5.6% from RMB0.54 in 2002 to RMB 0.57 in 2003. Average yield (in traffic revenue per RTK) decreased by 1.7% from RMB4.84 in 2002 to RMB4.76 in 2003. Operating expenses increased by RMB1,021 million or 6.4% from RMB15,993 million in 2002 to RMB17,014 million in 2003. As operating revenue decreased while operating expenses increased, operating profit decreased by 77.5% from RMB2,026 million in 2002 to RMB456 million in 2003. The Group's net non-operating expenses increased by 9.1%, from RMB887 million in 2002 to RMB967 million in 2003, mainly due to a decrease in gain on disposal of fixed assets of RMB193 million, partly offset by a decrease in interest expense of RMB135 million. Overall, the Group recorded a net loss of RMB358 million in 2003, as compared to a net profit of RMB576 million in 2002.

Operating revenue

Substantially all of the Group's operating revenue is attributable to airline operations. Traffic revenue in 2003 and 2002 accounted for 97.1% and 97.0% respectively of total operating revenue. Passenger revenue and, cargo and mail revenue accounted for 88.5% and 11.5% respectively of total traffic revenue in 2003. The balance of the Group's operating revenue is derived from commission income, income from general aviation operations, fees charged for ground services and for air catering services and net income from lease arrangements.

Operating revenue decreased by 3.0% from RMB18,019 million in 2002 to RMB17,470 million in 2003. This decrease was primarily due to a 4.4% fall in passenger revenue from RMB15,696 million in 2002 to RMB15,010 million in 2003 resulting from lower traffic volume caused by SARS. The total number of passengers carried decreased by 4.8% to 20.5 million passengers in 2003. RPKs decreased by 8.8% from 28,940 million in 2002 to 26,387 million in 2003, primarily as a result of a decrease in passengers carried. However, passenger yield increased by 5.6% from RMB0.54 in 2002 to RMB0.57 in 2003, mainly as the result of the exemption of CAAC Infrastructure Development Fund and sales tax during the period from 1 May, 2003 to 31 December, 2003.

Domestic passenger revenue, which accounted for 81.6% of the total passenger revenue in 2003, increased slightly by 0.1% from RMB12,234 million in 2002 to RMB12,242 million in 2003. Domestic passenger traffic in RPKs decreased by 3.6%, mainly due to a decrease in passengers carried. Passenger yield, however, increased from RMB0.55 in 2002 to RMB0.57 in 2003, mainly as the result of the aforesaid exemption of CAAC Infrastructure Development Fund and sales tax.

Hong Kong passenger revenue, which accounted for 5.0% of total passenger revenue, decreased by 28.9% from RMB1,055 million in 2002 to RMB750 million in 2003. For Hong Kong flights, passenger traffic in RPKs decreased by 28.0%, while passenger capacity in ASKs decreased by 22.9%, resulting in a 4.1 percentage point decrease in passenger load factor from 2002. Passenger yield decreased from RMB0.98 in 2002 to RMB0.96 in 2003 mainly due to slack in traffic volume.

International passenger revenue, which accounted for 13.4% of total passenger revenue, decreased by 16.2% from RMB2,407 million in 2002 to RMB2,018 million in 2003. For international flights, passenger traffic in RPKs decreased by 25.2%, while passenger capacity in ASKs decreased by 20.8%, resulting in a

3.6 percentage point fall in passenger load factor from 2002. Passenger yield increased by 11.9% from RMB0.42 in 2002 to RMB0.47 in 2003 mainly as the result of the aforesaid exemption of CAAC Infrastructure Development Fund and sales tax.

Cargo and mail revenue, which accounted for 11.5% of the Group's total traffic revenue and 11.1% of total operating revenue, increased by 9.5% from RMB1,786 million in 2002 to RMB1,955 million in 2003. The increase was primarily due to the full year effect of the opening of two international cargo routes to Los Angeles of the United States of America and Leige of Belgium in late 2002.

Other operating revenue decreased by 6.0% from RMB537 million in 2002 to RMB505 million in 2003. The decrease was primarily due to a decrease in aircraft short-term lease income of RMB46 million.

Operating expenses

Substantially all of the Group's operating expenses result from its airline operations. The vast majority of such expenses relate directly to flight operations, aircraft and traffic servicing, aircraft repair and maintenance and to depreciation and amortisation in respect of aircraft and flight equipment. Expenses associated directly with the Group's flight operations (collectively, "flight operations expenses") include fuel costs, operating lease payments, catering expenses, aircraft insurance, flight personnel payroll and welfare and training expenses. Expenses associated directly with repairs and maintenance in respect of the Group's aircraft (collectively, "repairs and maintenance expenses") include repairs and maintenance and overhaul charges, the costs of consumables and other maintenance materials and labour costs for maintenance personnel. Expenses associated directly with the Group's aircraft and traffic servicing operations (collectively "aircraft and traffic servicing expenses") include landing and navigation fees, rental payments and charges in respect of terminal and other ground facilities and labour costs for ground personnel. The balance of the Group's operating expenses result from promotional and marketing activities (collectively, "promotional and marketing expenses") such as sales commissions, fees for use of the CAAC's reservation system, ticket-printing and sales office expenses, advertising and promotional expenses, and from general and administrative expenses, such as administrative salaries and welfare and other personnel benefits and office expenses.

Total operating expenses in 2003 amounted to RMB17,014 million, representing an increase of 6.4% or RMB1,021 million over 2002, primarily due to the combined effect of increases in jet fuel costs, maintenance expenses and aircraft and traffic servicing expenses. Total operating expenses as a percentage of total operating revenue increased from 88.8% in 2002 to 97.4% in 2003.

Flight operations expenses, which accounted for 41.6% of total operating expenses, increased by 5.0% from RMB6,733 million in 2002 to RMB7,070 million in 2003, primarily as a result of increases in jet fuel costs and operating lease payments, partly offset by a decrease in catering expenses. Jet fuel costs, which accounted for 54.7% of flight operations expenses, increased by 9.9% from RMB3,519 million in 2002 to RMB3,867 million in 2003 mainly as a result of increased jet fuel prices. Operating lease payments increased by 8.4% from RMB1,417 million in 2002 to RMB1,536 million in 2003, primarily due to the full year effect of the addition of new operating leases in respect four Boeing 757-200 aircraft in late 2002 and four Airbus 319-100 aircraft and three Boeing 737-700 aircraft during 2003. Catering expenses decreased by 18.4% from RMB625 million in 2002 to RMB510 million in 2003, primarily reflecting a tighter cost controls exercised by the Group. Aircraft insurance costs decreased by 23.4% from RMB256 million in 2002 to RMB196 million in 2003, primarily because of a reduction in the rate of aircraft insurance premiums prescribed by the PRC insurance company. Labour costs for flight personnel decreased by 6.8% from RMB781 million in 2002 to RMB728 million in 2003, largely due to a decrease in flight hours.

Maintenance expenses which accounted for 15.2% of total operating expenses, increased by 11.0% from RMB2,333 million in 2002 to RMB2,589 million in 2003. The increase was primarily attributable to an 11.3% increase in aircraft maintenance and repair charges from RMB2,135 million in 2002 to RMB2,377 million in 2003, mainly as the result of the effect of fleet expansion in recent years.

Aircraft and traffic servicing expenses, which accounted for 16.3% of total operating expenses, increased by 10.2% from RMB2,511 million in 2002 to RMB2,767 million in 2003. The increase primarily resulted from an 8.9% rise in landing and navigation fees from RMB2,354 million in 2002 to RMB2,563 million in 2003, due to an increase in the charge rate for domestic landing and navigation fees effective September 2002.

Promotional and marketing expenses, which accounted for 8.7% of total operating expenses, decreased by 1.3% from RMB1,500 million in 2002 to RMB1,480 million in 2003. The decrease was due to 9.3% decrease in labour costs from RMB248 million in 2002 to RMB225 million in 2003, as fewer bonuses were given because of reduced sales volume in 2003.

General and administrative expenses, which accounted for 6.2% of the total operating expenses, decreased slightly by 0.7% from RMB1,060 million in 2002 to RMB1,053 million in 2003. This was mainly due to a decrease in scale of operations during SARS period.

Depreciation and amortisation, which accounted for 12.0% of total operating expenses, increased by 10.8% from RMB1,840 million in 2002 to RMB2,038 million in 2003. This increase was primarily as a result of the additions of aircraft during 2003.

Operating profit

Operating profit decreased by 77.5% from RMB2,026 million in 2002 to RMB456 million in 2003. This was mainly because operating revenue decreased by RMB549 million or 3.0% from 2002 while operating expenses increased by RMB1,021 million or 6.4% over the same period.

Non-operating income/(expenses)

Interest expense decreased by 14.1% from RMB959 million in 2002 to RMB824 million in 2003, mainly reflecting the combined effect of scheduled debt repayments and the replacement of certain RMB denominated bank loans with US$ denominated bank loans with lower interest rates.

Interest income decreased by 75.2% from RMB53 million in 2002 to RMB13 million in 2003. This was mainly attributable to a decrease in average cash balances.

The Group recorded a net loss on sale of fixed assets of RMB22 million in 2003, mainly resulting from retirement of two old Boeing 737-200 aircraft.

During 2003, the Group recorded a net exchange loss of RMB164 million predominantly due to its Japanese yen denominated borrowings as a result of the Japanese yen appreciation. Such amount comprised mostly unrealised translation loss.

Taxation

On 17 October, 2003, the Company's registered address was moved to Guangzhou Economic & Technology Development Zone. In accordance with the Rules and Regulations for Implementation of Income Tax for Foreign Investment Enterprises and Foreign Enterprises of the PRC and a taxation approval document "Guangzhou Municipal State Tax Bureau Suo De Shui Zi Que 020043", the Company is entitled to enjoy the preferential tax policy implemented in the Guangzhou Economic & Technology Development Zone effective from 1 October, 2003. As a result, the Company's income tax rate has been changed to 15% from 33% beginning from that date.

The Group recorded an income tax credit of RMB324 million for 2003 compared to an income tax expense of RMB398 million for 2002. As a result of the reduction in income tax rate, the Company's net deferred taxation liability balance brought forward from 31 December, 2002 of RMB507 million was reduced by RMB392 million and a net deferred tax credit of RMB392 million was recognised in 2003 for such reduction in income tax rate accordingly.

Minority interests

Minority interests increased by 3.6% from RMB165 million in 2002 to RMB171 million in 2003, primarily reflecting the net profits earned by certain of the Group's airline subsidiaries for the year.

Liquidity, financial resources and capital structure

As at 31 December, 2003, the Group's borrowings totalled RMB18,460 million, representing a decrease of RMB815 million from RMB19,275 million last year. Such borrowings were denominated, to a larger extent, in United States dollars and, to a smaller extent, in Japanese yen and Renminbi, with a significant portion being fixed interest rate borrowings. Of such borrowings, RMB8,395 million, RMB1,716 million, RMB1,601 million, RMB1,660 million and RMB5,088 million will be repayable in 2004, 2005, 2006, 2007, 2008 and thereafter respectively. As at 31 December, 2003, cash and cash equivalents of the Group totalling RMB2,080 million, of which 22.2% were denominated in foreign currencies, decreased by 44.8% from RMB3,771 million last year. Net debts (total borrowings net of cash and cash equivalents) increased by 5.7% to RMB16,380 million.

As at 31 December, 2003, the Group's shareholders' equity amounted to RMB11,896 million, representing an increase of RMB2,283 million from RMB9,613 million last year. The increase was mainly due to the issuance of 1,000,000,000 A shares with an issue price of RMB2.70 per share by way of public offering in July 2003 in the PRC.

Net debt/equity ratio of the Group at 31 December, 2003 was 1.38 times, as compared to 1.61 times last year.

Financial risk management policy

In the normal course of business, the Group is exposed to fluctuations in foreign currencies and jet fuel prices. The Group's exposure to foreign currencies was as a result of its debt 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 consumption 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

As at 31 December, 2003, certain aircraft of the Group with an aggregate carrying value of approximately RMB14,576 million (2002: RMB14,783 million) were mortgaged under certain loan and lease agreements.

Commitments

At December 31, 2003, the Group had capital commitments of approximately RMB13,628 million. Of such amounts, RMB10,615 million related to the acquisition of aircraft and related flight equipment and RMB2,072 million related to the Group's facilities and equipment to be constructed and installed at the Guangzhou new airport. The remaining amount of RMB941 million related to the Group's other airports and office facilities and equipment, overhaul and maintenance bases and training facilities.

As at 31 December, 2003, the Group was committed to make a capital contribution of approximately RMB446 million to its jointly controlled entities.

APPENDIX II GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests 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 notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules are as follows:

NAME	THE COMPANY/ ASSOCIATED ORPORATION	TYPE OF INTEREST	TYPE OF SHARES	NUMBER OF SHARES HELD	% TO THE TOTAL ISSUED H SHARES OF THE COMPANY	% TO THE TOTAL ISSUED DOMESTIC SHARES OF THE COMPANY	% TO T IS S CAPITA COM
Simon To	the Company	Interest of spouse (Note 1)	H shares	100,000	0.009%	-	0.

Note 1: The spouse of Mr. Simon To is the owner of these 100,000 H Shares of the Company and accordingly, Mr. Simon To, is taken to be interested in these 100,000 H Shares by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors of the Company and their respective associates had interests or short positions 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 notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which he was 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 notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules.

None of the Directors or Supervisors of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and Supervisors of the Company, the interests and short positions of the following persons other than the Directors or Supervisors of the Company in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any option in respect of such capital are set out below:

NAME OF SHAREHOLDERS	TYPE OF SHAREHOLDING	TYPE OF SHARES	NUMBER OF SHARES HELD	% OF THE TOTAL ISSUED H SHARES OF THE COMPANY	% OF THE TOTAL ISSUED DOMESTIC SHARES OF THE COMPANY
CSAHC	Direct holding	State-owned shares (A Shares)	2,200,000,000	-	68.75%
HKSCC Nominees Limited	Direct holding	H Shares	1,151,953,998	98.11%	-

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) and so far as the Directors and Supervisors are aware, as at the Latest Practicable Date:

1. Among the 1,151,953,998 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 1,151,953,998 H Shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. had an interest in an aggregate of 95,788,800 H Shares of the Company (representing approximately 8.16% of its then total issued H Shares). Out of the 95,788,800 H Shares, JPMorgan Chase & Co. had an interest in a lending pool comprising 8,038,000 H Shares of the Company (representing approximately 0.68% of its then total issued H Shares). According to the information as disclosed in the website of the Stock Exchange and so far as the Directors and Supervisors are aware, JPMorgan Chase & Co. held its interest in the Company in the following manners:

(a) 8,038,000 H Shares in a lending pool, representing approximately 0.68% of the Company's then total issued H Shares, were held by J.P. Morgan Chase Bank, N.A. which was 100% held by JPMorgan Chase & Co.;

(b) 1,064,800 H Shares, representing approximately 0.09% of the Company's then total issued H Shares, were held in the capacity as beneficial owner by J.P. Morgan Whitefriars Inc., which was ultimately 100% held by JPMorgan Chase & Co.;

(c) 84,536,000 H Shares, representing approximately 7.20% of the Company's then total issued H Shares, were held in the capacity as investment manager by JF Asset Management Limited, which was approximately 99.99% held by J.P. Morgan Fleming Asset Management (Asia) Inc., which was ultimately 100% held by JPMorgan Chase & Co.; and

(d) 2,150,000 H Shares, representing approximately 0.18% of the Company's then total issued H Shares, were held in the capacity as beneficial owner by JF International Management Inc., which was ultimately 100% held by JPMorgan Chase & Co..

3. Among the 1,151,953,998 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 Stock Exchange and so far as the Directors and Supervisors are aware, Morgan Stanley International Incorporated which was (or its directors were) accustomed to act in accordance with the directors of Morgan Stanley, held its indirect interest in the Company as at the Latest Practicable Date in the manner as follows:

(a) 743,322 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 9.25% 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 issued 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, in which Morgan Stanley International Incorporated held 100% control; 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 Stock Exchange and so far as the Directors and Supervisors are aware, as at the Latest Practicable Date, 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).

4. Among the 1,151,953,998 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.

5. Among the 1,151,953,998 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, as at the Latest Practicable Date, so for as was known to the Directors and Supervisors of the Company, no other person (other than the Directors or Supervisors) had an interest or short position in the shares or underlying shares of the Company

under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

4. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contract entered into in the ordinary course of business) within the two years immediately preceding the date of this circular:

(a) A sale and purchase agreement (the "VSA Sale and Purchase Agreement") dated 12 November, 2004 between the Company, CSAHC, China Northern Airlines Company ("Northern Airlines"), a wholly owned subsidiary of CSAHC, and Xinjiang Airlines Company ("Xinjiang Airlines") , a wholly owned subsidiary of CSAHC, pursuant to which the Company agreed to acquire, and CSAHC, Northern Airlines and Xinjiang Airlines agreed to sell certain airlines and airlines-related operations, assets and properties of Northern Airlines, Xinjiang Airlines and their respective subsidiaries, which included aircraft, engines, spare parts, aviation equipment and facilities, properties, office facilities, and other fixed, current and intangible assets. In addition, the Company will also assume all indebtedness in the aggregate sum of RMB13,438,191,000 owed by Xinjiang Airlines, Northern Airlines and their respective subsidiaries in connection with their civil aviation business. The total consideration, including the assumption of the debts under the VSA Sale and Purchase Agreement was RMB15,397,524,000. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(b) A lease agreement (the "Lease Agreement 1") dated 12 November, 2004 between the Company, CSAHC and Northern Airlines, pursuant to which CSAHC and Northern Airlines lease to the Company certain buildings, facilities and other infrastructure related to the civil aviation business of Northern Airlines situated at various locations in Shenyang, Dalian, Jilin, Harbin, Chaoyang and Russia for a period of three years. The consideration for Lease Agreement 1 is RMB41,993,318.44 per year. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(c) A lease agreement (the "Lease Agreement 2") dated 12 November, 2004 between the Company, CSAHC and Xinjiang Airlines, pursuant to which CSAHC and Xinjiang Airlines lease to the Company certain buildings, facilities and other infrastructure related to the civil aviation business of Xinjiang Airlines situated at Xinjiang and Russia for a period of three years. The consideration for Lease Agreement 2 is RMB5,797,908.61 per year. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(d) A lease agreement (the "Lease Agreement 3") dated 12 November, 2004 between the Company and CSAHC, pursuant to which CSAHC leases to the Company certain lands situated in Urumqi, Shenyang, Dalian and Harbin, by leasing the land use rights of such lands to the Company for a period of three years. The consideration for Lease Agreement 3 is RMB22,298,033 per year. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(e) A catering agreement (the "Catering Agreement") dated 12 November, 2004 between the Company and China Southern Airlines Group Air Catering Company Limited (the "Catering Company"), a wholly owned subsidiary of CSAHC, pursuant to which the Catering Company supplies in-flight meal and catering services to the flights of the Company originating or stopping at the domestic airports, mainly in Northern China and Xinjiang regions where the Catering Company provides catering services for a period of three years. The consideration for the catering agreement is based on the price of each type of in-flight meals and the service price for each type of aircraft, and is capped at RMB220 million per year. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(f) A financial agreement (the "Financial Agreement") dated 12 November, 2004, between the Company and Southern Airlines Group Finance Company Limited ("SA Finance"), a connected person of the Company which is 42% owned by CSAHC, 32% owned by the Company and 26% owned in aggregate by five subsidiaries of the Company. The Financial Agreement commenced from 12 November, 2004 for a period of three years, and is renewable, subject to compliance with the requirements of the relevant Listing Rules by the Company, by an application in writing by the Company not less than 30 days before the end of the fixed term. Under the Financial Agreement, SA Finance provides deposit of money service and, subject to the execution of further agreements with the Company, other financial services like loan facilities, credit facilities, financial guarantees and credit references to the Company. The Company is not subject to any extra charges for depositing money with SA Finance. For the other financial services provided by SA Finance under the financial agreement, the Company is liable to pay SA Finance the standard charging rates set by the People's Bank of China. The PRC commercial banks also charge similar charging rates set by the People's Bank of China. The Company will make payment for such interest, fees and commissions in accordance with the payment terms of the separate agreements for the provision of loans or other financial services as might be entered into between the Company and SA Finance. It became effective upon approval by the shareholders of the Company on 31 December, 2004.

(g) The Airbus Aircraft Acquisition Agreement.

(h) The Boeing Aircraft Acquisition Agreement.

5. MATERIAL LITIGATION

The Company is currently involved in a civil litigation (Hong Kong High Court Action No. 515 of 2001) ("Litigation"). According to the writ of summons for the Litigation, New Link Consultants Limited, the plaintiff, claimed against the Group (as one of the defendants to the Litigation) on the basis of certain evidence proving that United Aero-Supplies System of China, Limited ("UASSC") entered into an agreement with the defendants for exclusive purchase of aviation equipment consigned to UASSC for sale. As the defendants failed to perform the agreement, UASSC should have the right to compensation. Since UASSC is in the course of its winding up proceedings, all the rights and benefits of UASSC in connection with the claim have been transferred to the plaintiff. The Company, as one of the defendants to the

Litigation, is being claimed for unspecified damages for breach of the agreement. The Company has filed an objection in respect of the jurisdiction of the court, and has requested the court to transfer the case to the PRC for trial. On 3 May, 2004, the court made an award in favour of the Company for the transfer to the PRC, against which the plaintiff has filed an appeal.

6. DIRECTORS' AND SUPERVISORS' INTERESTS

(a) None of the Directors or Supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December, 2004, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by, or leased to, to any member of the Group.

(b) None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

7. SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. REMUNERATION POLICIES

The remuneration committee of the Company is chaired by independent non-executive Director Sui Guang Jun with independent non-executive Director Wei Ming Hai and executive Director Wang Quan Hua as members. The responsibilities of the remuneration committee are to approve the remuneration packages of Directors and senior management of the Group, and the Company's preliminary proposals on annual emoluments of the Directors and senior management of the Group. The Company is required to comply with the remuneration regulations imposed by the central government of the PRC which govern the remuneration payable to the Directors, senior management and other significant employees of the Company. As of the Latest Practicable Date, the Company had approximately 30,000 employees.

9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 77 of the Articles of Association of the Company, at any general meeting of shareholders of the Company, a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

i. by the chairman of the meeting;

ii. by at least two shareholders entitled to vote present in person or by proxy; or

iii. by one or more shareholders present in person or by proxy and representing 10 percent or more of all shares carrying the right to vote at the meeting.

The demand for a poll may be withdrawn by the person who makes such demand.

10. MISCELLANEOUS

(a) The secretary of the Company is Su Liang. He was a graduate of the Cranfield College of Aeronautics, University of Cranfield, United Kingdom, specializing in Air Transport Management Engineering. Mr. Su is a holder of master degree. During the period from 1998 to 1999, Mr. Su held the position as Deputy Manager of the Flight Operations Department, China Southern Airlines Shenzhen Co. and from 1999 to 2000, he was the Manager of the Planning and Administration Department of China Southern Airlines Shenzhen Co.. Mr. Su was in charge of the international cargo project of the Company, responsible for the planning and development of the Company's North American cargo business. Mr. Su has been the secretary of the Company since 2000.

(b) The Company has not currently appointed an individual who will satisfy all the requirements of a qualified accountant for the purposes of Rule 3.24 of the Listing Rules. The Company will continue its efforts to identify and recruit a suitable and qualified candidate to assume the office of qualified accountant.

(c) The registered address of the Company is at Guangzhou Economic & Technology Development Zone, Guangdong Province, PRC and the principal place of business of the Company in Hong Kong is at Unit B1, 9th Floor, United Centre, 95 Queensway, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit B1, 9th Floor, United Centre, 95 Queensway, Hong Kong up to and including 15 June, 2005:

(a) the articles of association of the Company;

(b) the VSA Sale and Purchase Agreement;

(c) the Lease Agreement 1;

(d) the Lease Agreement 2;

(e) the Lease Agreement 3;

(f) the Catering Agreement;

(g) the Financial Agreement;

(h) the Airbus Aircraft Acquisition Agreement;

(i) the Boeing Aircraft Acquisition Agreement; and

(j) the audited financial statements of the Group for the years ended 31 December, 2002, 31 December, 2003 and 31 December, 2004.

SUPPLEMENTAL NOTICE OF THE 2004 ANNUAL GENERAL MEETING

[COMPANY LOGO] [CHINESE CHARACTERS]
CHINA SOUTHERN AIRLINES COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(STOCK CODE: 1055)

SUPPLEMENTAL NOTICE OF THE 2004 ANNUAL GENERAL MEETING

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the annual general meeting (the "AGM") of China Southern Airlines Company Limited (the "Company") for the year ended 31 December, 2004, which will be held as originally scheduled at 9:00 a.m., on 15 June, 2005 at the headquarters of China Southern Airlines Company Limited, No. 278 Ji Chang Road, Guangzhou, Guangdong Province, the People's Republic of China, will consider and approve the following resolutions in addition to the resolutions set out in the previous notice dated 28 April, 2005 of the AGM:

I. TO EXAMINE AND APPROVE THE FOLLOWING RESOLUTIONS AS ORDINARY RESOLUTIONS:

9. "THAT the entering into of the aircraft acquisition agreement dated 21 April, 2005 (the "Airbus Aircraft Acquisition Agreement"), a copy of which has been produced to this meeting marked "A" and initialed by the Chairman of this meeting for the purpose of identification, between Airbus SNC as the vendor, Southern Airlines (Group) Import and Export Trading Company as the import agent and the Company as purchaser and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

10. "THAT the entering into of the aircraft acquisition agreement dated 29 April, 2005 (the "Boeing Aircraft Acquisition Agreement"), a copy of which has been produced to this meeting marked "B" and initialed by the Chairman of this meeting for the purpose of identification, between Xiamen Airlines Company Limited and the Company as purchasers and The Boeing Company as the vendor, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

II. TO CONSIDER AND APPROVE THE FOLLOWING RESOLUTIONS AS SPECIAL RESOLUTIONS:

2. Proposal by Space Dragon Limited, Choicewell Limited and China Asset Management Co., Ltd., being the shareholders of the Company, to amend the Articles of Association of the Company as set out below:

The original Article 97 of the "Articles of Association" shall be followed by the following new provisions:

"ARTICLE 98 The opinions of the public shareholders shall be well represented in the election of the directors (including independent directors) and supervisors (excluding supervisors assumed by staff representatives) at the general meetings by prompting the accumulative voting system.

The accumulative voting system referred to herein means that, in the election of directors or supervisors at the general meeting, each share carrying voting right shall carry the same number of voting right as the number of directors or supervisors proposed to be elected, and the voting rights of the shareholders may be freely cast among the proposed directors and supervisors, either be separately cast in favour of a number of nominees or be collectively cast in favour of one nominee. As such, based on the number of votes that the nominated directors and supervisors have got and the number of directors or supervisors proposed to be elected, those who have got more votes shall be elected.

ARTICLE 99 Differential voting shall be applied upon election of the Directors and Supervisors in accordance with the accumulative voting system. The number of nominees shall be more than the proposed number of Directors and Supervisors.

ARTICLE 100 The Board of Directors and the Supervisory Committee shall consult the opinion of the top ten shareholders in writing prior to determination of the elected Directors and Supervisors.

ARTICLE 101 Subsequent to the issue by the Company of the Notice of General Meeting regarding election of the Directors and Supervisors, candidates may be nominated before the date of the General Meeting by the shareholders holding individually or in aggregate more than 1% of the voting shares of the Company, and the proposal may be submitted by the Board of Directors to the General Meeting for approval after verification in accordance with the procedures for amendment of proposals at the General Meeting.

ARTICLE 102 The independent directors shall be elected separately from other members of the Board of Directors in accordance with the accumulative voting system."

By Order of the Board
SU LIANG
Company Secretary

Guangzhou, the People's Republic of China
27 May, 2005

As at the date of this announcement, the directors of the Company include Liu Shao Yong, Liu Ming Qi, Peng An Fa, Wang Quan Hua, Zhao Liu An, Zhou Yong Qian, Zhou Yong Jin, Xu Jie Bo, Wu Rong Nan and Si Xian Min as executive directors; and Simon To, Peter Lok, Wei Ming Hai, Wang Zhi and Sui Guang Jun as independent non-executive directors.

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SUPPLEMENTAL NOTICE OF THE 2004 ANNUAL GENERAL MEETING

Notes:

1. A supplemental form of proxy in respect of the above resolutions is enclosed to this notice.

2. Please refer to the notice dated 28 April, 2005 of the AGM of the Company for details in respect of other resolutions to be passed at the AGM, eligibility of attendance, registration procedures, proxy and other relevant matters.

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[LOGO] [CHINESE CHARACTERS]

CHINA SOUTHERN AIRLINES COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(STOCK CODE: 1055)

ATTACHMENT A

The number of H Shares to which this proxy form relates(1) ____________________________

SUPPLEMENTAL FORM OF PROXY FOR ANNUAL GENERAL MEETING

I/We(2),_______________________________, holder of share account number___________, residing at(2)____ , being the registered holder of(3)_____________________________ ordinary shares of China Southern Airlines Company Limited (the "Company"), HEREBY APPOINT(4), ______________________________________residing at __________________________________ ____, as my/our proxy/proxies to attend on my/our behalf the Annual General Meeting ("AGM") of the Company to be held at the headquarters of the Company at No. 278 Ji Chang Road, Guangzhou, Guangdong Province, the People's Republic of China at 9:00 a.m., on 15 June, 2005 and to act and vote on my/our behalf at the AGM in respect of the resolutions listed below, in accordance with my/our instructions below(5).

I. ORDINARY RESOLUTIONS(5)	FOR	A
1. To consider and approve the entering into of the aircraft acquisition agreement dated 21 April, 2005 (the "Airbus Aircraft Acquisition Agreement") between Airbus SNC as the vendor, Southern Airlines (Group) Import and Export Trading Company as the import agent and the Company as purchaser and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained(6).		
2. To consider and approve the entering into of the aircraft acquisition agreement dated 29 April, 2005 between the Company, The Boeing Company and Xiamen Airlines Company Limited, and the transactions contemplated thereunder, subject to the conditions therein contained(6).		
II. SPECIAL RESOLUTION		
1. To approve the resolution on the proposed amendments to the "Articles of Association" of the Company as set out in section II, no. 2 of the Supplemental Notice of the 2004 Annual General Meeting of the Company.		

Signature(7):______________________________________ Date:_________________ 2005

Notes:

1. Please insert the number of shares in the Company registered in your name(s) and to which this proxy form relates. If no such number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).

2. Please insert your name(s) and address(es) (as shown in the register of members) in block capital(s).

3. Please insert the number of all the shares in the Company registered in your name(s).

4. If no person is appointed as proxy, the Chairman of the AGM will be deemed to have been appointed by you as your proxy.

5. If you wish to vote for any of the resolutions, please insert a "[X]" in the box marked "FOR" or if you wish to vote against any of the resolutions, please insert a "[X]" in the box marked "AGAINST". If no indication is given, then your proxy/proxies may vote in such manner as he/she/they think(s) fit.

6. For further details, please refer to the circular of the Company in relation to the major transaction and very substantial acquisition dated 27 May, 2005.

7. This form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a company or an organization, either under the common seal or under the hand of any director or attorney duly authorized in writing. In any event, the execution shall be made in accordance with the articles of association of such company or organization.

8. To be valid, this proxy form and, if such proxy form is signed by a person under a power of attorney or authority on behalf of the appointer, a notarized copy of that power of attorney or other authority, must be delivered to Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time designated for the holding of the AGM.

9. A proxy, on behalf of the shareholder, attending AGM shall bring along the proxy form duly completed and signed as well as the proof of identification of the proxy, in the case of a company or an organization, the proxy shall also bring along a notarized copy of the resolution of the board of directors or other governing body of the appointer or a letter of authorization.

10. This proxy form shall be completed in form of a set of two copies, one of which shall be lodged to Hong Kong Registrars Limited pursuant to Note 8; and the other copy shall be produced upon the AGM by the proxy of the shareholder pursuant to Note 9.

11. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjourned AGM should you so wish.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA SOUTHERN AIRLINES COMPANY LIMITED

By /s/ Su Liang

Name: Su Liang
Title: Company Secretary

Date: May 31, 2005