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CHINA SOUTHERN AIRLINES CO LTD

Form 6-K

September 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 August, 2005

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

Jichang Road  
Guangzhou, Guangdong 510405  
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.  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.

(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 August 29, 2005 published in local newspapers in Hong Kong an announcement in Chinese and English, respectively, concerning the Company's interim results for the six months ended June 30, 2005. A copy of the English announcement is included in this Form 6-K of the Company.

[CHINA SOUTHERN AIRLINES COMPANY LIMITED 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)

2005 INTERIM RESULTS

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The board of directors (the "Board") of China Southern Airlines Company Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005, together with the comparative figures for the corresponding period of 2004 as follows:

### FINANCIAL RESULTS

#### A. PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

##### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005 - unaudited  
(Expressed in Renminbi)

	Note	FOR THE SIX MONTHS ENDED 30 JUNE 2005 RMB MILLION
Operating revenue		
Traffic revenue		17,443
Other operating revenue		401
		-----
Total operating revenue	3	17,844
		-----
Operating expenses		
Flight operations		9,084
Maintenance		2,320
Aircraft and traffic servicing		2,560
Promotion and sales		1,220
General and administrative		912
Depreciation and amortisation		2,094
Other		70
		-----
Total operating expenses		18,260
		-----
Operating (loss)/profit		(416)
		-----
Non-operating income/(expenses)		
Interest income		17
Interest expense	4	(750)
Share of associates' results		(28)
Share of jointly controlled entities' results		24
(Loss)/profit on sale of property, plant and equipment		(35)
Exchange gain, net		197
Other, net		(34)
		-----
Total net non-operating expenses		(609)
		-----
(Loss)/profit before taxation	4	(1,025)
Taxation credit/(expense)	5	61
		-----
(Loss)/profit for the period		(964)
		=====

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Attributable to		
Equity holders of the parent		(907)
Minority interests	2	(57)
		-----
(Loss)/profit for the period		(964)
		=====
Basic (loss)/earnings per share	7	(RMB0.21)
		=====

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CONSOLIDATED BALANCE SHEET  
As at 30 June 2005 - unaudited  
(Expressed in Renminbi)

	Note	AS AT 30 JUNE 2005 RMB MILLION	As at 31 December 2004 RMB million (Note 2)
NON-CURRENT ASSETS			
Property, plant and equipment, net		50,478	46,841
Construction in progress		773	565
Lease prepayments		371	346
Interest in associates		402	429
Interest in jointly controlled entities		809	782
Other investments		290	272
Lease and equipment deposits		4,699	5,397
Deferred tax assets		68	-
Other assets		299	331
		-----	-----
		58,189	54,963
		-----	-----
CURRENT ASSETS			
Short term investments		-	683
Inventories		1,505	1,302
Taxes recoverable		40	-
Trade receivables	8	1,271	1,203
Other receivables		976	616
Prepaid expenses and other current assets		418	378
Cash and cash equivalents		5,632	3,083
		-----	-----
		9,842	7,265
		-----	-----
CURRENT LIABILITIES			
Bank and other loans		13,282	11,518
Obligations under finance leases		2,397	2,144
Trade payables	9	2,334	1,554
Bills payable		2,760	136
Sales in advance of carriage		899	874
Taxes payable		-	39
Amounts due to related companies		106	2,330
Accrued expenses		4,590	4,551
Other liabilities		3,246	2,974

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		-----	-----
		29,614	26,120
		-----	-----
NET CURRENT LIABILITIES		(19,772)	(18,855)
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		38,417	36,108
		-----	-----
NON-CURRENT LIABILITIES AND DEFERRED ITEMS			
Bank and other loans		12,782	11,935
Obligations under finance leases		11,712	9,599
Provision for major overhauls		275	284
Deferred credits		370	100
Deferred tax liabilities		336	287
		-----	-----
		25,475	22,205
		-----	-----
NET ASSETS		12,942	13,903
		=====	=====
CAPITAL AND RESERVES			
Share capital		4,374	4,374
Reserves	10	6,567	7,474
		-----	-----
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		10,941	11,848
MINORITY INTERESTS	2	2,001	2,055
		-----	-----
TOTAL EQUITY		12,942	13,903
		=====	=====

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NOTES:

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") adopted by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the change in presentation of financial statements arising from the changes of International Financial Reporting Standards ("IFRS") that is expected to be reflected in the 2005 annual financial statements. Details of the changes are set out in note 2.

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

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The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants.

### 2 NEW AND REVISED IFRS

The IASB has issued a number of new and revised IFRS that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRS for the year ending 31 December 2005, on the basis of IFRS currently in issue.

The IFRS that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRS for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of revised IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements, has resulted in a change in presentation of minority interests in the financial statements:

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

### 3 TURNOVER

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

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

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

	FOR THE SIX MONTHS ENDED 30 JUNE			
	DOMESTIC RMB MILLION	HONG KONG REGIONAL RMB MILLION	INTERNATIONAL RMB MILLION	TOTAL RMB MILLION
2005				
Traffic revenue	13,592	641	3,210	17,443
Other operating revenue	401	-	-	401
	-----	-----	-----	-----
Turnover	13,993	641	3,210	17,844
	=====	=====	=====	=====
Operating (loss)/profit	(228)	28	(216)	(416)
	=====	=====	=====	=====
2004				
Traffic revenue	8,341	569	1,924	10,834
Other operating revenue	260	-	-	260
	-----	-----	-----	-----
Turnover	8,601	569	1,924	11,094
	=====	=====	=====	=====
Operating profit	605	39	112	756
	=====	=====	=====	=====

4 (LOSS)/PROFIT BEFORE TAXATION

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2005 RMB MILLION	2004 RMB million
(Loss)/profit before taxation is arrived at after charging:		
Depreciation		
- owned assets	1,603	815
- assets acquired under finance leases	491	255
Amortisation of deferred expenditure	30	13
Operating lease charges		
- aircraft and flight equipment	1,184	828
Staff costs	1,776	1,061
Interest expense		
Interest on bank and other loans	493	175
Finance charges on obligations under finance leases	302	186
Less: borrowing costs capitalised	(45)	(17)
	-----	-----
Net interest expense	750	344



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there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2004 and 2005.

### 8 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:

	AS AT 30 JUNE 2005 RMB MILLION	As at 31 December 2004 RMB million
Within 1 month	1,113	998
More than 1 month but less than 3 months	123	163
More than 3 months but less than 12 months	35	42
	-----	-----
	1,271	1,203
	=====	=====

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### 9 TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	AS AT 30 JUNE 2005 RMB MILLION	As at 31 December 2004 RMB million
Due within 1 month or on demand	917	599
Due after 1 month but within 3 months	582	430
Due after 3 months but within 6 months	835	525
	-----	-----
	2,334	1,554
	=====	=====

### 10 RESERVES

No transfer to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve has been made during the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

B. PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS ("PRC GAAP")

#### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005 - unaudited  
(Expressed in Renminbi)



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	FOR THE SIX MONTHS ENDED 30 JUNE	
	2005	2004
	RMB MILLION	RMB million
REVENUE FROM PRINCIPAL OPERATIONS	18,053	11,167
Less: Cost of principal operations	15,924	8,776
Business taxes and surcharges	518	318
	-----	-----
PROFIT FROM PRINCIPAL OPERATIONS	1,611	2,073
Add: Profit from other operations	240	95
Less: Selling expenses	1,290	870
Administrative expenses	862	478
Financial expenses	583	331
	-----	-----
OPERATING (LOSS)/PROFIT	(884)	489
Add: Investment (loss)/income	(10)	29
Non-operating income	23	48
Less: Non-operating expenses	57	25
	-----	-----
(LOSS)/PROFIT BEFORE INCOME TAX	(928)	541
Less: Income tax (credit)/expenses	(57)	88
Minority interests	(28)	120
	-----	-----
NET (LOSS)/PROFIT FOR THE PERIOD	(843)	333
	=====	=====

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CONSOLIDATED BALANCE SHEET  
As at 30 June 2005 - unaudited  
(Expressed in Renminbi)

	AS AT 30 JUNE 2005	As at 31 December 2004
	RMB MILLION	RMB million
ASSETS		
CURRENT ASSETS:		
Cash at bank and on hand	5,844	3,274
Short-term investments	-	669
Trade receivables	1,431	1,592
Other receivables	1,045	731
Advance payments	146	147
Inventories	1,639	1,398
Prepaid expenses	364	346
	-----	-----
TOTAL CURRENT ASSETS	10,469	8,157

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LONG-TERM EQUITY INVESTMENTS	726	741
FIXED ASSETS:		
Fixed assets, at cost	66,909	61,326
Less: Accumulated depreciation	15,647	13,706
Net book value of fixed assets	51,262	47,620
Construction in progress	784	626
TOTAL FIXED ASSETS	52,046	48,246
OTHER ASSETS:		
Lease and equipment deposits	4,748	5,397
Long-term deferred expenditure	113	131
Intangible assets	540	467
Long-term receivables	15	16
TOTAL OTHER ASSETS	5,416	6,011
DEFERRED TAXATION:		
Deferred tax assets	70	55
TOTAL ASSETS	68,727	63,210

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LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term loans	11,666	10,173
Bills payable	2,760	137
Trade payables	2,561	2,600
Receipts in advance	-	5
Sales in advance of carriage	899	874
Wages payable	123	179
Staff welfare payable	63	79
Taxes payable	271	324
Other creditors	718	495
Other payables	2,419	4,328
Accrued expenses	4,249	3,729
Dividend payable	39	-
Long-term liabilities due within one year	4,140	3,691
TOTAL CURRENT LIABILITIES	29,908	26,614
LONG-TERM LIABILITIES:		

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Long-term loans	13,139	12,324
Obligations under finance leases	11,604	9,538
Provision for major overhauls	275	284
Deferred credits	494	240
	-----	-----
TOTAL LONG-TERM LIABILITIES	25,512	22,386
	-----	-----
DEFERRED TAXATION:		
Deferred tax liabilities	327	337
	-----	-----
TOTAL LIABILITIES	55,747	49,337
	-----	-----
MINORITY INTERESTS	2,158	2,220
	-----	-----
SHAREHOLDERS' EQUITY		
Share capital	4,374	4,374
Capital reserve	5,813	5,801
Surplus reserves	672	672
	-----	-----
Including: Statutory public welfare fund	193	193
	-----	-----
(Accumulated loss)/ retained profits	(37)	806
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	10,822	11,653
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	68,727	63,210
	=====	=====

Note: The significant accounting policies adopted by the Group in the preparation of this unaudited consolidated income statement and consolidated balance sheet are in conformity with the Accounting Standards for Business Enterprises, "Accounting Regulations for Business Enterprises" and other supplementary regulations.

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C. DIFFERENCES BETWEEN UNAUDITED INTERIM FINANCIAL RESULTS PREPARED UNDER IFRS AND PRC GAAP

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2005	2004
	RMB MILLION	RMB million
Net (loss)/profit under PRC GAAP	(843)	333
Adjustments:		
Gains on aircraft sale and leaseback transactions	(15)	(15)
Losses on staff housing allocations	(13)	(56)
Adjustment for revaluation of land use rights	2	2

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Adjustment for investment in associates	(52)	-
Donation	12	-
Effect of the above adjustments on taxation	2	2
	-----	-----
Net (loss)/profit attributable to equity holders of parent under IFRS	(907)	266
	=====	=====
	AS AT	As at
	30 JUNE	31 December
	2005	2004
	RMB MILLION	RMB million
Total shareholders' equity under PRC GAAP	10,822	11,653
Adjustments:		
Gains on aircraft sales and leaseback transactions	165	180
Losses on staff housing allocations	184	197
Adjustment for revaluation of land use rights	(160)	(162)
Adjustment for investment in associates	(78)	(26)
Interest capitalisation	11	11
Effect of the above adjustments on taxation	(3)	(5)
	-----	-----
Total equity attributable to equity holders of parent under IFRS	10,941	11,848
	=====	=====

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OPERATING DATA SUMMARY

	FOR THE SIX MONTHS ENDED 30 JUNE		2005 VS 2004
	2005	2004	INCREASE/ (DECREASE)
CAPACITY			
Available seat kilometres (ASKs) (million)			
- Domestic	33,833	20,141	13,692
- Hong Kong regional	1,138	926	212
- International	6,782	4,861	1,921
	-----	-----	-----
Total	41,753	25,928	15,825
	=====	=====	=====
Available tonne kilometres (ATKs) (million)			
- Domestic	3,885	2,333	1,552
- Hong Kong regional	127	103	24
- International	1,402	1,139	263
	-----	-----	-----

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Total	5,414	3,575	1,839
	=====	=====	=====
Kilometres flown (thousand)	254,547	156,041	98,506
	=====	=====	=====
Hours flown (thousand)	400	242	158
	=====	=====	=====
Number of flight sectors			
- Domestic	184,974	117,919	67,055
- Hong Kong regional	8,364	7,549	815
- International	12,826	7,548	5,278
	-----	-----	-----
Total	206,164	133,016	73,148
	=====	=====	=====
TRAFFIC			
Revenue passenger kilometres			
(RPKs) (million)			
- Domestic	23,479	13,644	9,835
- Hong Kong regional	695	573	122
- International	4,304	3,025	1,279
	-----	-----	-----
Total	28,478	17,242	11,236
	=====	=====	=====
Revenue tonne kilometres			
(RTKs) (million)			
- Domestic	2,524	1,518	1,006
- Hong Kong regional	69	57	12
- International	750	611	139
	-----	-----	-----
Total	3,343	2,186	1,157
	=====	=====	=====
Passenger tonne kilometres			
(million)			
- Domestic	2,094	1,219	875
- Hong Kong regional	62	51	11
- International	383	270	113
	-----	-----	-----
Total	2,539	1,540	999
	=====	=====	=====
Cargo and mail tonne kilometres			
(million)			
- Domestic	430	299	131
- Hong Kong regional	7	6	1
- International	367	341	26
	-----	-----	-----

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Total	804	646	158
	=====	=====	=====
Passengers carried (thousand)			
- Domestic	18,115	11,825	6,290
- Hong Kong regional	739	671	68
- International	1,405	819	586
	-----	-----	-----
Total	20,259	13,315	6,944
	=====	=====	=====
Cargo and mail carried (thousand tonne)			
- Domestic	285	218	67
- Hong Kong regional	8	7	1
- International	55	42	13
	-----	-----	-----
Total	348	267	81
	=====	=====	=====
LOAD FACTORS			
Passenger load factor (RPK/ASK) (%)			
- Domestic	69.4	67.7	1.7
- Hong Kong regional	61.1	61.9	(0.8)
- International	63.5	62.2	1.3
Total	68.2	66.5	1.7
	=====	=====	=====
Average load factor (RTK/ATK) (%)			
- Domestic	65.0	65.1	(0.1)
- Hong Kong regional	54.3	55.3	(1.0)
- International	53.5	53.6	(0.1)
Total	61.7	61.1	0.6
	=====	=====	=====
Breakeven load factor (%)	64.6	58.3	6.3
	=====	=====	=====
YIELD			
Yield per RPK (RMB)			
- Domestic	0.55	0.58	(0.03)
- Hong Kong regional	0.86	0.93	(0.07)
- International	0.56	0.45	0.11
Total	0.56	0.57	(0.01)
	=====	=====	=====
Yield per cargo and mail tonne kilometre (RMB)	1.84	1.64	0.20

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	=====	=====	=====
Yield per RTK (RMB)			
- Domestic	5.39	5.49	(0.10)
- Hong Kong regional	9.29	9.98	(0.69)
- International	4.28	3.15	1.13
Total	5.22	4.96	0.26
	=====	=====	=====
FLEET			
Number of aircraft in service at period end			
- Boeing	136	113	23
- Airbus	56	24	32
- McDonnell Douglas	36	-	36
- Embraer	6	2	4
- Others	8	-	8
	-----	-----	-----
Total	242	139	103
	=====	=====	=====
Aircraft utilisation rate (hours per day)			
- Boeing	10.30	9.60	0.70
- Airbus	9.34	9.27	0.07
Total	9.87	9.40	0.47
	=====	=====	=====
FINANCIAL			
Operating cost per ASK (RMB)	0.44	0.40	0.04
Operating cost per ATK (RMB)	3.37	2.89	0.48
	=====	=====	=====

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BUSINESS OVERVIEW

BUSINESS REVIEW

With the continuous and steady growth of the PRC economy and the nation's "Go West" and "Revitalising the Old Industrial Bases in the North-eastern Region" strategies, coupled with the effects of joint restructuring of domestic airlines, the Company is faced with new challenges under a market environment which is full of opportunities. On 31 December 2004, the acquisition of the airline operations and certain related assets of China Northern Airlines Company ("CNA") and Xinjiang Airlines Company ("XJA") ("CNA/XJA Acquisition") was approved at an extraordinary general meeting of the Company, which completed the restructuring exercise. The Group has benefited from this acquisition through increased economies of scale and transportation capacity.

However, escalating oil prices continued to drive up the jet fuel prices, which directly increased the operating costs of the Company significantly. In addition, the competition in the domestic civil aviation market was very intensive, leading to an unstable yield. Furthermore, after the restructuring of the Group, it would take a period of time for the benefits of business integration to materialise and for business synergy to take effect. As a result,

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the Company recorded a net loss of RMB907 million during the first half of the year.

During the first half year of 2005, the Group managed to maintain a consistently high level of flight safety standard to further implement the integration of management of the Group and to complete a stable transition. Notwithstanding challenges like the period required for reorganisation of the management and personnel of the Group after the CNA/XJA Acquisition, the enlarged scale of management and difficulties associated therewith, and the increasingly intensive competition in the aviation and air freight market, the Company has handled these challenges with care and plan, and further implemented the development strategies of the Company.

With the approval of the Board, the Company and Centergate Securities Co., Ltd mutually agreed to the early termination of the assets management agreement. As of 30 May 2005, the Company recovered the full investment principal sum of RMB500,000,000 and the investment return of RMB12,904,110.

For the period under review, the Group's total traffic revenue was RMB17,443 million, an increase of RMB6,609 million or 61.0% from the same period last year. Meanwhile, the Group's total traffic volume increased by 52.9% to 3,343 million RTKs. The aggregate utilisation rate of the Group's aircraft was 9.87 hours per day for the period under review, an increase of 0.47 hours or 5.0% from the same period last year.

Passenger revenue for the period under review was RMB15,967 million, up 63.3% from the same period last year, representing 91.5% of the Group's total traffic revenue. Passenger traffic volume increased by 65.2% to 28,478 million RPKs.

Domestic passenger revenue was RMB12,956 million, up 64.4% from the same period last year. Domestic passenger revenue accounted for 81.1% of overall passenger revenue. Passenger capacity, in terms of ASKs, increased by 68.0% while passenger traffic volume, in terms of RPKs, increased by 72.1% from the same period last year, resulting in an increase in passenger load factor of 1.7 percentage points to 69.4%. The passenger yield per RPK decreased by 5.2% from RMB0.58 to RMB0.55, resulting from intensive competition in the domestic market.

On Hong Kong regional routes, the Group recorded passenger revenue of RMB599 million, up 12.0% from the same period last year. Hong Kong regional passenger revenue accounted for 3.8% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 22.9% while passenger traffic volume, in terms of RPKs increased by 21.3% from the same period last year, resulting in a decrease in passenger load factor of 0.8 percentage points to 61.1%. The passenger yield per RPK decreased by 7.5% to RMB0.86 as more chartered flights were rendered during the period under review.

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Passenger revenue for the Group's international routes amounted to RMB2,412 million, an increase of 77.5% from the same period last year. International passenger revenue accounted for 15.1% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 39.5% while passenger traffic volume, in terms of RPKs, increased by 42.3% from the same period last year, resulting in an increase in passenger load factor of 1.3 percentage points to 63.5%. The passenger yield per RPK increased by 24.4% to RMB0.56 mainly due to upward fare adjustment on certain routes during the period under review.

Cargo and mail revenue was RMB1,476 million, an increase of 39.5% from the same period last year. Cargo and mail revenue accounted for 8.5% of total traffic revenue. Cargo and mail volume grew by 24.5% to 804 million RTKs from the same



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period last year, mainly due to the increase in traffic volume. The overall yield per cargo and mail tonne kilometre increased by 12.2% to RMB1.84, mainly due to an increase in fares during the period under review.

The Group's other revenue amounted to RMB401 million, an increase of 54.2% from the same period last year, primarily due to increases in ground service income of RMB72 million, as a result of the increase in traffic volume.

Total operating expenses increased by 76.6% to RMB18,260 million from the same period last year, primarily due to the general increases in fuel cost, aircraft repairs and maintenance expenses, landing and navigation fees and commission expenses resulting from the increase in traffic volume during the period under review.

Flight operations expenses increased by 92.4% to RMB9,084 million from the same period last year. Of these expenses, fuel cost was RMB5,549 million, up 104.6% from the same period last year, mainly as a result of increases in fuel consumption and fuel prices. Aircraft insurance costs increased by 48.2% to RMB126 million, primarily resulted from the fleet expansion subsequent to the CNA/XJA Acquisition. Operating lease payments increased by 43.0% to RMB1,184 million, mainly attributable to additional rental payments for new aircraft under operating leases. Air catering expenses increased by 72.4% to RMB538 million, primarily as a result of an increase in number of passengers carried during the period under review. Labour costs for flight personnel increased by 65.8% to RMB814 million, largely due to an increase in flying hours.

Maintenance expenses increased by 64.5% to RMB2,320 million, due mainly to increases in aircraft overhaul charges and routine maintenance costs resulting from the increase in flying hours during the period under review.

Aircraft and traffic servicing expenses increased by 51.6% to RMB2,560 million from the same period last year, reflecting primarily an increase in number of landing and takeoffs.

Promotion and sales expenses increased by 39.6% to RMB1,220 million from the same period last year, primarily as a result of an increase in traffic volume.

General and administrative expenses increased by 65.2% to RMB912 million from the same period last year, due mainly to an increase in the scale of operations.

As compared with the same period last year, depreciation and amortisation expenses increased by 93.4% to RMB2,094 million, reflecting primarily the effect of the fleet expansion through the CNA/XJA Acquisition and scheduled aircraft delivered during the second half of 2004 and the period under review.

Interest expense increased by 118.0% to RMB750 million in the period under review, primarily reflecting an increase in the balance of loan borrowings and the increase in LIBOR rate, while 46.5% of the Group total borrowings are subject to LIBOR rate.

The Group recorded a net exchange gain of RMB197 million, predominantly relating to its Japanese yen denominated borrowings as a result of the depreciation of Japanese Yen during the period under review. The major part of such amount represented unrealised translation gain.

As a result of the aforementioned factors, for the six months ended 30 June 2005, the Group recorded a net loss attributable to equity holders of the parent of RMB907 million, as compared to a net profit attributable to equity holders of the parent of RMB266 million for the same period last year.

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### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 30 June 2005, the Group's borrowings totalled RMB42,933 million, an increase of RMB7,601 million from RMB35,332 million as of 31 December 2004. The majority of such borrowings were denominated in United States dollars and, to a smaller extent, in Japanese yen and Hong Kong dollars, with a significant portion being fixed interest rate borrowings. As of 30 June 2005, cash and cash equivalents of the Group totalled RMB5,632 million, an increase of RMB2,549 million from RMB3,083 million as of 31 December 2004. Of such balance, 30.8% was denominated in foreign currencies. Net debts (total borrowings net of cash and cash equivalents) increased by 15.7% to RMB37,301 million from RMB32,249 million as of 31 December 2004.

As of 30 June 2005, the equity attributable to equity holders of the parent amounted to RMB10,941 million, a decrease of RMB907 million from RMB11,848 million as of 31 December 2004, reflecting the net loss recorded for the period under review.

Net debt/equity ratio of the Group as of 30 June 2005 was 3.41 times, as compared to 2.72 times as of 31 December 2004.

### 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 is mainly attributable to its debts denominated in foreign currencies. Depreciation or appreciation of the Renminbi against foreign currencies could affect the Group's results and financial position significantly, as 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 authorised PRC banks.

On 21 July 2005, the People's Bank of China ("PBOC") announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of foreign currencies. In particular, the exchange rate of US dollar against Renminbi was adjusted upward to RMB8.11 per US dollar with effect from the close of business on 21 July 2005. The Group considers that the above appreciation of Renminbi would not have adverse financial impacts to its operation.

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 the Group for managing its exposure associated with the fluctuations in domestic jet fuel prices.

### CHARGES ON ASSETS

As of 30 June 2005, certain aircraft of the Group with an aggregate carrying value of approximately RMB25,268 million (as of 31 December 2004: RMB23,562 million) were mortgaged under certain loan and lease agreements.

### CAPITAL AND INVESTING COMMITMENTS

As of 30 June 2005, the Group had capital commitments of approximately RMB40,605 million. Of such amounts, RMB37,429 million was related to the acquisition of aircraft and related flight equipment and RMB820 million was related to the

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Group's facilities and equipment to be constructed and installed at the new Guangzhou Baiyun International Airport. The remaining amount of RMB2,356 million was related to the Group's other airports and office facilities and equipment, overhaul and maintenance bases and training facilities.

As of 30 June 2005, the Group was committed to making a capital contribution of approximately RMB61 million and RMB83 million to its subsidiaries and jointly controlled entities respectively.

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### CONTINGENT LIABILITIES

There have been no material adverse changes in the contingent liabilities of the Group since 31 December 2004.

### RECENT ECONOMIC DEVELOPMENT

Upon approval from the Board, the Company will set up its Beijing branch in Tianzhu Airport Industrial Zone, Beijing. The Company believes that with the integration of the Group's core business, the Company's business development in Beijing Capital International Airport will provide a better hub base for the Group's existing Azure Big Delta (Guangzhou, Shenyang and Urumqi) network services. Meanwhile, the Group can also take an active role in and share the opportunities arising from the Beijing Olympics Games 2008.

Following the announcement by the PBOC on the changes in the Renminbi foreign exchange rate system on 21 July 2005, the Company will benefit from the Renminbi appreciation as it finances its aircraft acquisitions and conducts other transactions in US dollar e.g. jet fuel, lease of aviation equipment, acquisition and major repair, and it still has a substantial amount of debt in US dollar. In addition, landing fees for international flights are denominated in foreign currencies making the Company a beneficiary of the appreciation of Renminbi. Renminbi appreciation will also bring a one-off exchange gain to the Group and reduce its operating costs which are denominated in foreign currencies. On the other hand, the Group faces greater challenge from international routes.

According to "Notice of the National Development and Reform Commission (NDRC) and the General Administration of Civil Aviation of China (CAAC) Concerning the Relevant Questions on Collecting Fuel Surcharge to Domestic Routes", effective from 1 August 2005 (flight time), airlines are allowed to impose fuel surcharge on all domestic routes (other than routes between Mainland to Hong Kong and Macau). The resumption of fuel surcharge collection will ease the Group's burden due to the jet fuel cost.

### PROSPECTS FOR THE SECOND HALF

Global airline industry has been badly hit by soaring jet fuel prices. As a result of the three times increases in domestic jet fuel prices, the Group's jet fuel cost has accounted for 30% of total costs. The Group intends to meet the challenges by using its economies of scale operation and strict control over operating costs increase, so as to reduce the impact brought by the persistently high oil prices.

The enlarged scale of the Group due to its joint restructuring will provide more opportunities for the development of the Company's business and operations. The Group will adjust its flight network by increasing traffic capacity to fill in any deficiencies in its routes, and will maintain or increase domestic and regional market shares. The Group believes that its leading position in the

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civil aviation industry can be assured by speeding up integration of flight networks and capacity to realize the objectives of network operation, and also through innovation, refinement and enhancement of incentive mechanism.

The Company will continue to implement strict costs control and raise its overall synergy benefits.

### DIVIDENDS

The Board of Directors does not propose to declare an interim dividend for the year 2005.

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### STRUCTURE OF SHARE CAPITAL

As of 30 June 2005, the share capital of the Company comprised 4,374,178,000 shares, of which approximately 50.30% or 2,200,000,000 State-owned Shares were held by China Southern Air Holding Company ("CSAHC"), approximately 22.86% or 1,000,000,000 A Shares were held by the PRC investors and approximately 26.84% or 1,174,178,000 H Shares were held by Hong Kong and overseas investors.

CATEGORY OF SHARES	NUMBER OF SHARES HELD	PERCENTAGE TO THE TOTAL SHARE CAPITAL (%)
State-owned Shares (held by CSAHC)	2,200,000,000	50.30%
H Shares	1,174,178,000	26.84%
A Shares	1,000,000,000	22.86%
	-----	-----
Total share capital	4,374,178,000	100.00%
	=====	=====

### SUBSTANTIAL SHAREHOLDERS

As of 30 June 2005, to the knowledge of the directors, chief executive and supervisors of the Company, the interests and short positions of the following persons other than the directors, chief executives or supervisors in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") or otherwise persons who have an interest of 10% or more in the Company's shares are as follows:

NAME OF SHAREHOLDER	TYPE OF SHAREHOLDING	TYPE OF SHARE	NUMBER OF SHARES HELD	% OF THE TOTAL ISSUED H SHARES OF THE COMPANY	% OF THE TOTAL ISSUED SHARE CAPITAL OF THE COMPANY
CSAHC	Direct holding	Domestic share	2,200,000,000	-	50.30%
HKSCC Nominees	Direct holding	H share	1,150,918,998	98.0%	26.31%

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Limited

Details of the interests of the Company's shareholders as of 30 June 2005 will be set forth in the Company's 2005 interim report.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company during the first half of 2005.

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

As of 30 June 2005, the interests and short positions of the directors, chief executive and supervisors in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to SFO (including interest or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of the Listed Companies" in Schedule 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

NAME	THE COMPANY/ ASSOCIATED CORPORATION	TYPES OF INTEREST	TYPE OF SHARE	NUMBER OF SHARES HELD	% TO THE TOTAL ISSUED SHARE CAPITAL OF THE COMPANY	% THE ISS H SH OF COM
Simon To	The Company	Interest of spouse (note 1)	H shares	100,000	0.002%	

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.

### DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 30 June 2005, the Group's deposits placed with financial institutions or other parties did not include any designated deposits or overdue time deposits against which the Group failed to receive repayments.

### THE MODEL CODE

Having made specific enquiries with all the directors of the Company, the directors have for six months ended 30 June 2005 complied with the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). The Company has not adopted a code of conduct less stringent than the "Model Code for Securities Transactions by Directors of Listed Issuers" regarding securities transactions of the directors.

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### THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Directors of the Company consider that, in the six months ended 30 June 2005, the Group was in compliance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

### MATERIAL LITIGATION

The Company was 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 was in the course of its winding up proceedings, all the rights and benefits of UASSC in connection with the claim had been transferred to the plaintiff. The Company, as one of the defendants to the Litigation was claimed for unspecified damages for breach of the agreement. The Company 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.

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In August 2005, the parties to the Litigation reached an out of court settlement, pursuant to which the plaintiff will waive all its rights or possible rights to commence proceedings, claims or appeals against the Company in respect of the same matter.

By order of the Board of Directors  
LIU SHAO YONG  
Chairman of the Board of Directors

Guangzhou, the PRC  
26 August 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, Si Xian Min, Xu Jie Bo, Zhou Yong Jin and Wu Rong Nan as executive Directors; and Simon To, Peter Lok, Wei Ming Hai, Wang Zhi and Sui Guang Jun as independent non-executive Directors.

### DOCUMENTS AVAILABLE FOR INSPECTION

Original copy of the Company's 2005 interim report signed by the Chairman of the Board.

### ADDRESS FOR INSPECTION

The Company Secretary Office of the China Southern Airlines Company Limited, No. 278, Ji Chang Lu, Guangzhou, the People's Republic of China.

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be subsequently published on the Stock Exchange's website in due course.

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

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Name: Su Liang  
Title: Company Secretary

Date: September 1, 2005