CHINA SOUTHERN AIRLINES CO LTD
Form 6-K
December 02, 2004

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 November, 2004

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 November 15, 2004 distributed its Circular regarding a very substantial acquisition and connected transactions of the Company, 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents

of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this circular.

[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)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

FINANCIAL ADVISER

[JPMORGAN LOGO]

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS

[ICEA LOGO]

A subsidiary of ICBC

A letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the Financial Services Agreement is set out on pages 27 to 28 of this circular. A letter from ICEA containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the Financial Services Agreement is set out on pages 29 to 48 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at the headquarters of the Company at No. 278, Ji Chang Road, Guangzhou, Guangdong Province, the PRC on 31 December, 2004 at 9:00 am is set out on pages 353 to 355 of this circular. If you are not able to attend and/or vote at the EGM, you are strongly urged to complete the accompanying 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 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

12 November, 2004

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DEFINITIONS

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

"Acquisition"	the acquisition of the Business and Assets by the Company pursuant to the Sale and Purchase Agreement and all transactions contemplated thereunder
"Airline Operations"	the airlines and airlines-related operations
"Board"	the board of Directors
"Business and Assets"	certain Airline Operations, assets and properties of Northern Airlines Group and Xinjiang Airlines Group to be acquired by the Company from the Vendors pursuant to the Sale and Purchase Agreement, including aircraft, engines, spare parts, aviation equipment and facilities, properties, office facilities, and other fixed, current and

	intangible assets
"CAAC"	Civil Aviation Administration of China
"Cap"	the maximum aggregate annual value for each of the continuing connected transactions under the Listing Rules
"Catering Agreement"	the catering agreement dated 12 November, 2004 between the Company and the Catering Company
"Catering Company"	China Southern Airlines Group Air Catering Company Limited, a company incorporated in the PRC with limited liability
"CEIC"	CEIC Data Co., Ltd.
"Chesterton"	Chesterton Petty Limited, a chartered surveyor and independent property valuer incorporated in Hong Kong
"Combined Group"	the Listed Group together with the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group
"Company"	China Southern Airlines Company Limited, a joint stock company incorporated in the PRC with limited liability

"CSAHC"	China Southern Air Holding Company, a state-owned enterprise established under the laws of the PRC and the controlling shareholder of the Company
"Debts"	the debts and liabilities to be assumed by the Company from the Vendors pursuant to the Sale and Purchase Agreement
"Directors"	directors of the Company
"Effective Date"	the date when the Independent Shareholders approve the Sale and Purchase Agreement and the Acquisition
"EGM"	an extraordinary general meeting of the Company to be held approve, amongst other things, the Sale and Purchase Agreement, the Financial Services Agreement, the resignation of a director of the Company and the election of a new director of the Company
"EIU"	Economist Intelligence Unit
"Finance Company"	Southern Airlines Group Finance Company Limited, a company incorporated in the PRC with limited liability
"Financial Services Agreement"	the financial services agreement dated 12 November, 2004 b the Company and the Finance Company

"ICEA"	ICEA Capital Limited, a deemed licensed corporation carryi out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under SFO, which has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board
"ILFC"	International Lease Finance Corporation, an independent third party which is not connected to the Company

"Independent Board Committee"	the independent committee of the Board, the members of which consist of Simon To, Peter Lok, Wei Ming Hai, Wang Zhi and Sui Guang Jun, who are the independent non-executive Directors of the Company, formed to advise the Independent Shareholders with respect to the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder
"Independent Shareholders"	shareholders of the Company other than CSAHC and its associates
"JPMorgan"	J.P. Morgan Securities (Asia Pacific) Limited, which is licensed by the Securities and Futures Commission for Types 1, 4, 6 and 7 regulated activities under the Securities and Futures Ordinance, being the financial adviser to the Company in respect of the Acquisition
"KPMG"	KPMG, Certified Public Accountants registered in Hong Kong
"KPMG Huazhen"	KPMG Huazhen, Certified Public Accountants registered in the PRC
"Latest Practicable Date"	5 November, 2004, being the latest practicable date prior to the printing for ascertaining certain information contained he
"Lease Agreement 1"	the lease agreement dated 12 November, 2004 between the Compa CSAHC and Northern Airlines
"Lease Agreement 2"	the lease agreement dated 12 November, 2004 between the Compa CSAHC and Xinjiang Airlines
"Lease Agreement 3"	the lease agreement dated 12 November, 2004 between the Compan
"Lease Agreements"	Lease Agreement 1, Lease Agreement 2 and Lease Agreement 3
"Listed Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the

Stock Exchange

DEFINITIONS

"Northern Airlines"	China Northern Airlines Company, a company incorporated in the PRC with limited liability
"Northern Airlines Group"	Northern Airlines and its subsidiaries
"On-going Connected Transactions"	the Lease Agreements and the Catering Agreement which will be entered into between the Company and connected persons of the Company within the meaning of the Listing Rules, which will constitute continuing connected transactions of the Company under the Listing Rules upon completion of the Acquisition, details of which are set out in paragraph 7 headed "On-going Connected Transactions" under the section headed "Letter from the Board" of this circular
"Parties"	the Company and the Vendors
"PBOC"	the People's Bank of China, the central bank of the PRC
"PRC" or "China"	the People's Republic of China (excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan)
"Provision of Deposit Service"	the provision of deposit of money service by the Finance Company to the Company pursuant to the Financial Services Agreement
"Sale and Purchase Agreement"	the sale and purchase agreement dated 12 November, 2004 be the Company, CSAHC, Northern Airlines and Xinjiang Airlines pursuant to which the Company agreed to acquire and CSAHC, Northern Airlines and Xinjiang Airlines agreed to sell the Business and Assets
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Northern Airlines Group and Xinjiang Airlines Group
"Vendors"	CSAHC, Northern Airlines and Xinjiang Airlines

DEFINITIONS

"Xinjiang Airlines"	Xinjiang Airlines Company, a company incorporated in the PRC with limited liabilities
"Xinjiang Airlines Group"	Xinjiang Airlines and its subsidiaries
"Zhong Qi Hua Valuation Reports"	the Valuation Report on the Transfer of Business and Assets of Northern Airlines as of 31 December, 2003 (Zhongqihuapingbaozi (2004) Report No. 149-1) and the Valuation Report on the Transfer of Business and Assets of Xinjiang Airlines as of 31 December, 2003 (Zhongqihuapingbaozi (2004) Report No. 149-2) prepared by China Enterprise Appraisal Co., Ltd., independent qualified valuers jointly appointed by CSAHC and the Company, and approved by the SASAC on 14 October, 2004

For the purpose of this circular, unless otherwise indicated, Renminbi amounts have been translated into Hong Kong dollars using the rate of HK$1:RMB1.06.

GLOSSARY

In this circular, the following terms shall have the meanings indicated, unless the context otherwise requires:

CAPACITY MEASUREMENTS	
"available seat kilometres" or "ASKs"	the number of seats made available for sale multiplied by the kilometres flown
"available tonne kilometres" or "ATKs"	the tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
TRAFFIC MEASUREMENTS	
"revenue passenger kilometres" or "RPKs"	the number of passengers carried multiplied by the kilometres flown
"revenue freight tonne kilometres" or "RFTKs"	the load of cargo in tonnes multiplied by the kilometres flown
"revenue tonne kilometres" or "RTKs"	the load (passengers and cargo) in tonnes multiplied by the kilometres flown
YIELD MEASUREMENTS	
"passenger yield"	revenue from passenger operations divided by RPKs
"cargo yield"	revenue from cargo operations divided by cargo tonne kilometres
"average yield"	revenue from airline operations (passenger and cargo) divided by RTKs
"tonne"	a metric ton, equivalent to 2,204.6 pounds

LOAD FACTORS	
"passenger load factor"	RPKs expressed as a percentage of ASKs
"overall load factor"	RTKs expressed as a percentage of ATKs
UTILISATION	
"utilisation rates"	the actual number of flight and taxi hours per aircraft pe operating day

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)

DIRECTORS:

Executive Directors:
Yan Zhi Qing (Director)
Liu Ming Qi (Vice Chairman of the Board of Directors)
Wang Chang Shun (Vice Chairman of the Board of Directors, President)
Peng An Fa (Director)
Wang Quan Hua (Director)
Zhao Liu An (Director)
Zhou Yong Qian (Director)
Zhou Yong Jin (Director)
Xu Jie Bo (Director, Chief Financial Officer)
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)
Yan 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

12 November, 2004

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

1. INTRODUCTION

On 12 November, 2004, the Board announced that the Sale and Purchase Agreement was entered into by the Company as the purchaser and CSAHC, Northern Airlines and Xinjiang Airlines as the vendors, whereby the Company will acquire the Business and Assets and assume the Debts from the Vendors.

The Independent Board Committee, comprising the independent non-executive Directors, namely Simon To, Peter Lok, Wei Ming Hai, Wang Zhi and Sui Guang Jun, has been formed to advise the Independent Shareholders with respect to the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder. ICEA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder.

The purpose of this circular is (i) to give you further information regarding the Acquisition, the On-going Connected Transactions which will constitute continuing connected transactions of the Company after completion of the Sale and Purchase Agreement, and the Financial Services Agreement; (ii) to set out the recommendations from the Independent Board Committee to the Independent Shareholders and the advice from ICEA to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder; and (iii) to give you the notice of the EGM and other information required under the Listing Rules.

2. THE SALE AND PURCHASE AGREEMENT

(1) DATE

12 November, 2004

(2) PARTIES

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

(b) CSAHC, the controlling shareholder of the Company holding approximately 50.30% equity interest in the Company as of the Latest Practicable Date. The principal business activity of CSAHC, based on its business licence, is that of operating and managing, on behalf of the PRC government, certain state-owned assets, including properties, and state-owned shareholdings in various PRC companies.

(c) Northern Airlines, a wholly owned subsidiary of CSAHC, as the vendor. The principal business activity of Northern Airlines is that of civil aviation.

(d) Xinjiang Airlines, a wholly owned subsidiary of CSAHC, as the vendor. The principal business activity of Xinjiang Airlines is that of civil aviation.

(3) THE BUSINESS AND ASSETS TO BE ACQUIRED AND THE DEBTS TO BE ASSUMED

(a) The Business and Assets to be acquired consist of certain

Airline Operations, assets and properties of Northern Airlines Group and Xinjiang Airlines Group, including aircraft, engines, spare parts, aviation equipment and facilities, properties, office facilities, and other fixed, current and intangible assets.

(b) The Debts to be assumed consist of all indebtedness in the aggregate sum of RMB15,090,109,000 owed by Xinjiang Airlines Group or Northern Airlines Group in connection with their civil aviation business.

(4) CONDITIONS PRECEDENT

The Sale and Purchase Agreement is subject to the following conditions precedent:

(a) the Vendors obtaining all approvals of the Sale and Purchase Agreement by the working meeting of the president of CSAHC and the SASAC; and

(b) the Independent Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

(5) CONSIDERATION AND PAYMENT TERMS

The provisional amount of the consideration of the Acquisition, and of the Debts to be assumed under the Sale and Purchase Agreement are set at RMB16,912,244,600 and RMB15,090,109,000 respectively. These amounts are arrived at after arm's length negotiations between the Vendors and the Company, with reference to the valuation of the Business and Assets, and Debts set out in the Zhong Qi Hua Valuation Reports. The Zhong Qi Hua Valuation Reports value the Business and Assets, Debts and net asset value of the Target Group at RMB16,912,244,600, RMB15,090,109,000 and RMB1,822,135,600 respectively as of 31 December, 2003.

The provisional amount of the consideration of the Acquisition, and of the Debts to be assumed by the Company will be subject to adjustment and finalisation based on the book value of the Business and Assets, and of the Debts as of the Effective Date, as determined in the financial statements of the Business and Assets of the Target Group prepared under the PRC Accounting Rules and Regulations and audited by KPMG Huazhen. A portion of the final adjusted consideration of the Acquisition will be settled by way of assumption of the final adjusted Debts, with the remaining balance to be payable by the Company to the bank account designated by the Vendors in cash. On the assumption that the Acquisition had taken place on 30 June, 2004, and based on the financial statements of the Business and Assets of the Target Group prepared under the PRC Accounting Rules and Regulations and audited by KPMG Huazhen on the same date, the remaining balance payable by the Company in cash to the bank account designated by the Vendors on that date would have been RMB1,897 million.

The Company shall make repayments of the Debts directly to the creditors of such Debts in accordance with the terms and conditions of the relevant agreements between the Vendors and the creditors in relation to the Debts.

(6) FUNDING

The Company will finance the Acquisition and the assumption of the Debts through its internal resources, and short term U.S. dollar commercial loans from commercial

banks amounting to RMB1,000 million. Such commercial banks are not and will not be connected persons (as defined in the Listing Rules) of the Company. The Company will make use of its unutilised banking facilities to draw down the required commercial loans.

(7) TRANSITION PERIOD

The terms of the Sale and Purchase Agreement provide for a transition period commencing from 31 December, 2003 and ending on the Effective Date, during which if a material change occurs such that any of the Business and Assets is damaged, lost, or the ownership of which no longer belongs to the Vendors, the Vendors shall give notice to the Company immediately. The Vendors must obtain the prior consent of the Company before disposing of any Business and Assets during the transition period.

All profits and losses arising from the Business and Assets during the transition period belong to the Vendors. All profits and losses from the Effective Date thereon shall belong to the Company.

(8) DELIVERY TERMS AND OWNERSHIP

The Vendors shall deliver all the Business and Assets, together with all documents evidencing or constituting ownership of such Business and Assets, to the Company within five days of the Effective Date.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the Acquisition represents an attractive opportunity for the Company to consolidate its strong market position and improve its financial performance. Both Northern Airlines and Xinjiang Airlines are leading airlines in their respective operating regions. The Acquisition will bring various commercial benefits to the Company in terms of broadening its flight service network, increasing its fleet size and transportation capacity, reducing costs and boosting its overall efficiency, ultimately strengthening the Listed Group's position as one of China's largest airlines and enhancing its value for its investors.

(1) BROADEN FLIGHT NETWORK

(a) The Listed Group is headquartered in Guangzhou with 12 operational bases in central and Southern China, offering regular flights on 248 domestic routes to over 69 cities in China, 18 routes to Hong Kong, and 45 international routes to 24 cities in East and Southeast Asia, Australia, North America and Europe, as of 30 June, 2004. However, due to the lack of operational bases, the Company is only capable of offering very limited flight services in Northern China and Northwestern China.

(b) Northern Airlines Group is headquartered in Shenyang with

operational bases in Dalian, Changchun and Harbin. Northern Airlines Group's operating region is predominantly in Northeastern China. It is also the dominant Chinese airline serving flight routes to Korea and Japan due to the proximity of its operating region to those countries.

(c) Xinjiang Airlines Group is headquartered in Urumqi, with operational bases and operating region in the Xinjiang autonomous region. It also commands a strong market position on domestic routes between Xinjiang and other parts of China, and on international routes to Russia, the Middle East and West Asia.

As the flight networks of the Listed Group, Northern Airlines Group and Xinjiang Airlines Group are disparate and complementary to each other, the Acquisition will significantly broaden the Company's flight network. After the Acquisition, the Company will have a strong presence in additional key markets in the Western and Northeastern part of China, enabling it to provide more comprehensive civil aviation service to customers.

The Directors believe that the Acquisition provides significant growth potential for the Listed Group, particularly in light of the "Go West" and "Redevelop the Northeast" campaigns initiated by the PRC government. The Directors also believe that the huge investment made by the PRC government in Western and Northeastern China will lead to rapid economic growth in those regions over the next decade or more, which, in turn, will result in rapid increase in air traffic volume to and from those regions.

In addition, the Acquisition will also significantly enhance the Company's international air transportation business. The Company will be able to offer flight services between its bases in Southern, Northeastern and Northwestern China and other international cities in North America, Southeast Asia, North Asia, the Middle East as well as Europe.

The table below illustrates the Company's domestic base network before and after the Acquisition:

BASE NETWORK BEFORE AND AFTER THE ACQUISITION

[BASE NETWORK MAP] Pre-transaction [BASE NETWORK MAP] Post-transaction

(2) INCREASE FLEET SIZE AND TRANSPORTATION CAPACITY

The Acquisition will substantially increase the fleet size of the Listed Group. As of 30 June, 2004, the Listed Group owned and operated a fleet of 139 medium and large size

commercial passenger and cargo aircraft. The Acquisition will bring in 75 commercial passenger and cargo aircraft from Northern Airlines Group and Xinjiang Airlines Group thereby increasing the Listed Group's fleet size

by 54% to 214 commercial aircraft. The increased economies of scale will contribute to greater transportation capacity, higher operating efficiency, lower operating and maintenance cost, more flexible flight scheduling, greater bargaining power in aircraft acquisitions, better financing terms for purchases and improved aircraft allocation for the flight routes.

The tables below set out fleet and selected operating data of the Target Group and the Listed Group individually, and on a combined basis, for the year 2003 and the first half of 2004:

FIRST SIX MONTHS OF 2004

	LISTED GROUP	NORTHERN AIRLINES GROUP	XINJIANG AIRLINES GROUP
Number of aircraft(1)	139	55	20
Passenger capacity (ASK) (million)	25,928	7,693	3,722
Passenger traffic (RPK) (million)	17,242	5,190	2,416
Passenger volume (thousand)	13,315	3,621	1,264
Cargo and mail carried (thousand tonne)	267	55	12

(1) As of 30 June, 2004 including owned and leased (on both finance and operating lease basis) aircraft.

2003

	LISTED GROUP	NORTHERN AIRLINES GROUP	XINJIANG AIRLINES GROUP
Number of aircraft(1)	132	50	20
Passenger capacity (ASK) (million)	40,867	13,940	6,297
Passenger traffic (RPK) (million)	26,387	9,147	4,092
Passenger volume (thousand)	20,470	6,474	2,148
Cargo and mail carried (thousand tonne)	464	111	21

(1) As of 31 December, 2003 including owned and leased (on both finance and operating lease basis) aircraft.

(3) MINIMIZE ROUTE OVERLAP AND OPTIMIZE FLIGHT SCHEDULES

The Directors believe that the Acquisition will yield significant benefits to the Listed Group through optimization of flight routes and schedules.

Most of the major flight routes in the PRC are served by more than one airline, and therefore the competition on most major flight routes is intense. Although offering discounts on air ticket prices is still regulated by the CAAC, many PRC airlines rely heavily on such measures to attract passengers. As a result, the Listed Group faces significant pressure on air ticket prices.

Prior to the Acquisition, the routes that the Listed Group shares with Northern Airlines Group and Xinjiang Airlines Group account for approximately 8.2% of the Listed Group's total routes. After the Acquisition, the Listed Group will become the sole or main operator on many of such shared flight routes. This reduction in route and slot overlap will allow the Listed Group to gain advantageous air ticket pricing power and improve its financial performance.

Moreover, the Listed Group could reduce the number of flights on those shared routes without sacrificing sufficient coverage and service quality. The Listed Group will then have additional capacity to support other more profitable flight routes and thus generate additional revenue.

(4) ENHANCE AIR TICKET SALES NETWORK AND REDUCE OVERHEAD

Northern Airlines Group, Xinjiang Airlines Group and the Listed Group each maintains an extensive air ticket sales network in major cities and large ground services teams at major airports in China. The Listed Group can achieve significant cost savings by rationalizing the sales network and consolidating the ground service operations of the three airlines. After the Acquisition, the Company plans to close a total of 14 geographically overlapping domestic air ticket sales offices (eight belong to Northern Airlines Group, four belong to Xinjiang Airlines Group and two to the Company) and four overseas air ticket sales offices (all belong to Northern Airlines Group).

(5) IMPROVE ALLOCATION OF AIRCRAFT, ENGINES, SPARE PARTS AND CREWS

The Directors believe the expanded fleet will provide the Listed Group greater flexibility in allocating aircraft between the combined routes of the Listed Group, Northern Airlines Group and Xinjiang Airlines Group.

For each of the three airlines, there is excess capacity in low seasons, but limited or inadequate capacity during peak seasons. As most of the flight routes served by them are different, each of the Listed Group, Northern Airlines Group and Xinjiang Airlines Group has relatively staggered peak and low seasons. After the Acquisition, the Company will be able to re-deploy an enlarged team of aircraft, pilots and flight personnel to the highest traffic routes and better ensure a balance of demand and supply for capacity throughout the year.

Furthermore, since the Listed Group has already been operating Boeing 737, 757 and Airbus 319, 320 aircraft that Xinjiang Airlines Group

and Northern Airlines Group are either currently operating or will be acquiring according to their aircraft replacement schedules, the Listed Group will be able to improve the internal allocation of engines and high-value aircraft spare parts. For instance, the Directors believe that after the Acquisition, the Listed Group may be able to purchase fewer aircraft engines and spare parts and reduce inventory level of them.

Through redeployment of aircraft, pilots and crew, and better allocation of spare parts, the Directors believe the Listed Group can improve its operating efficiency and reduce operating costs and capital expenditures.

(6) REDUCE MAINTENANCE COSTS

The Directors believe significant reduction in maintenance cost can be achieved through more centralized maintenance functions and sharing of maintenance personnel and equipment. The Company plans to centralize fleet maintenance functions at five national maintenance bases which are Guangzhou, Shenyang, Urumqi, Zhengzhou (or Wuhan) and Xiamen in the next few years. These maintenance bases will be responsible for major overhauls on all aircraft while the local bases will be responsible for minor maintenance tasks on their own aircraft. The Directors believe that this initiative will significantly improve efficiency and reduce the costs of fleet maintenance.

(7) STRENGTHEN MARKETING EFFORTS

Since its listing on the Stock Exchange, the Company has implemented many changes to its remuneration policies in order to improve the effectiveness of marketing efforts by its business units. Under the Company's current performance credit policy, its branch office located in the city that a particular flight originates from (including both non-stop and connecting flights) receives performance credit for the flights to the immediate next destination. Previously, all performance credit earned by a particular aircraft was given to the office in which that aircraft was based in, which did not provide incentive for the offices in intermediate cities to market the air ticket of that particular flight. After the Acquisition, the Company plans to implement this remuneration policy to the marketing units newly acquired from the Target Group. The Directors believe that this will lead to a more effective and concerted marketing effort by all the offices, and therefore resulting in higher sales revenue.

4. FINANCIAL EFFECT OF THE ACQUISITION

Based on the pro forma financial information of the Combined Group outlined in Appendix V of this circular, assuming that the Acquisition had taken place on 30 June, 2004, there would not be any impact on the net assets of the Listed Group following the Acquisition as of 30 June, 2004. On the same basis, the total assets of the Listed Group would increase by 35%, or RMB15,179 million, which would be offset by an increase of RMB15,083 million in liabilities and RMB96 million in minority interest.

Based on the pro forma financial information of the Combined Group outlined in Appendix V of this circular, assuming that the Acquisition had taken place on 1 January, 2004, for the first six months ended 30 June, 2004, net profit of the Listed Group would increase by 36%, or RMB95 million to RMB361

million following the Acquisition. On the same basis, basic earnings per share would increase from RMB0.06 to RMB0.08, representing an accretion of 36%.

5. IMPLICATIONS UNDER THE LISTING RULES

The Acquisition exceeds 100% of the relevant percentage ratios under Rule 14.07 of the Listing Rules and therefore constitutes a very substantial acquisition of the Company under the Listing Rules. Since CSAHC is the direct controlling shareholder of the Company, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to the approval by the Independent Shareholders at the EGM. The Board, including the independent non-executive Directors, believes that the terms of the Sale and Purchase Agreement and the Acquisition are fair and reasonable and are in the interests of the Listed Group and its shareholders as a whole.

An Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition. ICEA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition.

CSAHC and its associates are required to abstain from voting in respect of the proposed resolution to approve the Sale and Purchase Agreement and the Acquisition which will be conducted by poll.

6. PROSPECTIVE FINANCIAL INFORMATION

The Target Group has prepared certain prospective financial information in respect of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ending 31 December, 2004 in compliance with Rule 14A.56(8) and Rule 14.62 of the Listing Rules. For further details, please see Appendix VI. Neither the Target Group nor the Company intends to update this information during the remainder of the year or to update such information in future years, although the Directors are aware of the requirements of Rule 13.09 notes 9 and 10 of the Listing Rules. This information is necessarily based upon a number of assumptions (see Appendix VI) that, while presented with numerical specificity and considered reasonable by the Target Group, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or the Target Group, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, there can be no assurance that these results will be realized. The prospective financial information presented may vary from actual results, and these variations may be material.

The Company and the Target Group believe that, on the bases and the assumptions discussed in Appendix VI and in the absence of unforeseen circumstances, the Target Group's

forecast combined profit after taxation and minority interests but before the extraordinary items for the year ending 31 December, 2004 under IFRS is unlikely to be less than RMB148 million. Such forecast has been prepared based on the principal assumptions set out in Appendix VI to this circular. In the event that such forecast is not met, the Company will make further announcement to explain the reasons. The texts of the letters from KPMG and JPMorgan in respect of the profit forecast are set out in Appendix VI to this circular.

7. ON-GOING CONNECTED TRANSACTIONS

The Lease Agreements and the Catering Agreement will be entered into between the Company and connected persons of the Company within the meaning of the Listing Rules, which will constitute On-going Connected Transactions of the Company under the Listing Rules upon completion of the Acquisition.

(A) LEASE AGREEMENTS

(1) LEASE AGREEMENT 1

Date

12 November, 2004

Parties

(a) CSAHC, as the lessor.

(b) Northern Airlines, as the lessor.

(c) The Company, as the lessee.

The property to be leased

CSAHC and Northern Airlines lease to the Company certain buildings, facilities and other infrastructure related to the civil aviation businesses of Northern Airlines situated at various locations in Shenyang, Dalian, Jilin, Harbin, Chaoyang and Russia.

Term of Lease Agreement 1

Lease Agreement 1 is for a fixed term of three years, commencing from the date of the lease, and is renewable, subject to compliance with the relevant requirements of the Listing Rules by the Company, by an application in writing by the Company to the lessors three months before the end of the fixed term.

Consideration and payment terms

The consideration for Lease Agreement 1 is RMB41,993,318.44 per year, payable in arrear by cheque, in cash or by bank transfer on or before the 10th day of each calendar month, and is determined after arm's length negotiation between the parties. Chesterton, an independent qualified valuer in Hong Kong, has given its opinion that the consideration for Lease Agreement 1 is not higher than the current market prices of comparable properties. The consideration will be funded wholly by the Company's internal resources.

The Cap

As the consideration has been determined after arm's length negotiation between the parties and with regard to the current market prices, the Cap for the Lease Agreement 1 is set at RMB41,993,318.44 per year.

Reasons and benefits of the Lease Agreement 1

Following the Acquisition, the Company will expand its civil aviation business to locations where the buildings, facilities and infrastructure under the Lease Agreement 1 are situated at. The purchase of such buildings, facilities and infrastructure by the Company will involve the more time-consuming and costly process of transferring to the Company the relevant titles, ownership or land use rights relating thereto; whereas the entering into of the Lease Agreement 1 allows the Company to use those buildings, facilities and infrastructure to operate its expanded civil aviation business from the commencement date of the Lease Agreement 1 at rents not higher than the market rates for similar buildings, facilities and infrastructure.

(2) LEASE AGREEMENT 2

Date

12 November, 2004

Parties

(a) CSAHC, as the lessor.

(b) Xinjiang Airlines, as the lessor.

(c) The Company, as the lessee.

The property to be leased

CSAHC and Xinjiang Airlines lease to the Company certain buildings, facilities and other infrastructure related to the civil aviation businesses of Xinjiang Airlines situated in Xinjiang and Russia.

Term of Lease Agreement 2

Lease Agreement 2 is for a fixed term of three years, commencing from the effective date of the lease, and is renewable, subject to compliance with the relevant requirements of the Listing Rules by the Company, by an application in writing by the Company to the lessor three months before the end of the fixed term.

Consideration and payment terms

The consideration for Lease Agreement 2 is RMB5,797,908.61 per year, payable in arrear by cheque, in cash or by bank transfer on or before the 10th day of each calendar month, and is determined after arm's length negotiation between the parties. Chesterton, an independent qualified valuer in Hong Kong, has given its opinion that the consideration for Lease Agreement 2 is not higher than the current market prices of comparable properties. The consideration will be funded wholly by the Company's internal resources.

The Cap

As the consideration has been determined after arm's length

negotiation between the parties and with regard to the current market prices, the Cap for the Lease Agreement 2 is set at RMB5,797,908.61 per year.

Reasons and benefits of the Lease Agreement 2

Following the Acquisition, the Company will expand its civil aviation business to locations where the buildings, facilities and infrastructure under the Lease Agreement 2 are situated at. The purchase of such buildings, facilities and infrastructure by the Company will involve the more time-consuming and costly process of transferring to the Company the relevant titles, ownership or land use rights relating thereto; whereas the entering into of the Lease Agreement 2 allows the Company to use those buildings, facilities and infrastructure to operate its expanded civil aviation business from the commencement date of Lease Agreement 2 at rents not higher than the market rates for similar buildings, facilities and infrastructure.

(3) LEASE AGREEMENT 3

Date

12 November, 2004

Parties

(a) CSAHC, as the lessor.

(b) The Company, as the lessee.

The property to be leased

CSAHC leases to the Company certain lands by leasing the land use rights of such lands to the Company. These lands had been administratively allocated to Xinjiang Airlines and Northern Airlines for the purposes of their civil aviation and related businesses. Subsequently, CSAHC was authorised to deal with the land use rights of such lands, including leasing, but not transferring, such land use rights. Total area of the lands leased is 1,182,297 square metres, and the locations of such lands are in Urumqi, Shenyang, Dalian and Harbin.

Term of Lease Agreement 3

Lease Agreement 3 is for a fixed term of three years, commencing from the effective date of the lease, and is renewable, subject to compliance with the relevant requirements of the Listing Rules by the Company, by an application in writing by the Company to the lessor three months before the end of the fixed term.

Consideration and payment terms

The rent for the land use rights of the designed lands under Lease Agreement 3 is RMB22,298,033 per year, payable in arrear by cheque, in cash or by bank transfer on or before the 10th day of each calendar month, and is determined after arm's length

negotiation between the parties. Chesterton, an independent qualified valuer in Hong Kong, has given its opinion that the consideration for Lease Agreement 3 is not higher than the current market prices of comparable properties. The consideration will be funded wholly by the Company's internal resources.

The Cap

As the consideration has been determined after arm's length negotiation between the parties and with regard to the current market prices, the Cap for the Lease Agreement 3 is set at RMB22,298,033 per year.

Benefits of the Lease Agreement 3

Following the Acquisition, the Company will expand its civil aviation business to locations where the lands under the Lease Agreement 3 are situated at. As CSAHC is prohibited from transferring the land use rights of such lands to the Company, the Company could only lease the land use rights of such lands from CSAHC. The Lease Agreement 3 allows the Company to use those lands to operate its expanded civil aviation business at rent not higher than the market rates for similar lands.

(B) CATERING AGREEMENT

DATE

12 November, 2004

PARTIES

(a) The Company.

(b) The Catering Company, which is wholly owned by CSAHC. The principal business activity of the Catering Company is the provision of in-flight meals to airlines.

CATERING SERVICE

The Catering Company will supply (1) in-flight meals in accordance with the menus of in-flight meals agreed with the Company from time to time, and in such quantity as the Company shall advise the Catering Company in advance; and (2) catering services for different flights of the Company (including normal, additional, chartered and temporary flights) originating or stopping at the domestic airports, mainly in Northern China and the Xinjiang regions where the Catering Company provides catering services. The Combined Group will also obtain catering services and in-flight meals from other catering companies.

TERM OF THE CATERING AGREEMENT

The Catering Agreement is for a fixed term of three years from the date of the Catering Agreement.

CONSIDERATION AND PAYMENT TERMS

The parties have agreed, after arm's length negotiation, on the price of each type of in-flight meals and the service charges for each type of aircraft. The prices of in-flight meals and the service charges are not higher than the market rate of comparable in-flight meals and service charges. The Catering Company will issue an invoice listing out the quantity of in-flight meals supplied, the agreed unit price and the total price payable for each of the Company flight it provides service. The invoice shall be verified and signed by the captain flight attendant of that flight. At the end of each month, the Catering Company shall deliver to the Company for its verification all the invoices issued during that month. The Company will make payment to the Catering Company within 60 days of the receipt of the invoices.

THE CAP

There are no historical figures available for the Catering Agreement as it will only be entered into on 12 November, 2004. The Cap for the Catering Agreement is set at RMB220 million per year. As discussed above, the flight network of the Company will broaden following the Acquisition. The Cap for the Catering Agreement is therefore determined on the basis of the estimated number of passengers to be carried and the number of flights per year mainly under the enlarged flight network in Northern China and the Xinjiang regions of the Company during the term of the Catering Agreement, the prices of the in-flight meals and the service charges of the catering services under the Catering Agreement.

REASONS AND BENEFITS OF THE CATERING AGREEMENT

The Company can secure in-flight meals and catering services at prices no higher than the market price for its flights originating or stopping at domestic airports mainly in Northern China and the Xinjiang regions where the Catering Company provides catering services. The Company is not precluded from procuring in-flight meals and catering services from other catering companies where the terms and conditions are favourable.

(C) IMPLICATIONS UNDER THE LISTING RULES

As each of CSAHC, Xinjiang Airlines, Northern Airlines and the Catering Company is a connected person of the Company under the Listing Rules, each of the Lease Agreements and Catering Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. The Board, including the independent non-executive Directors, considers the On-going Connected Transactions to be on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Listed Group and its shareholders as a whole.

Pursuant to the Listing Rules, each percentage ratio (other than the profits ratio) for (i) the Lease Agreements, and (ii) the Catering Agreement is on an annual basis less than 2.5%. Therefore, each of (i) the Lease Agreements, and (ii) the Catering Agreement falls under Rule 14A.34 and is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and is exempt from the Independent Shareholders' approval requirements. The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in Rule 14A.37 to Rule 14A.41 of the Listing Rules.

Pursuant to the relevant rules and regulations of the PRC, each of Lease

Agreement 1, Lease Agreement 2, Lease Agreement 3 and Catering Agreement is conditional upon approval by the Independent Shareholders. In accordance with the relevant rules and regulations of Shanghai Stock Exchange, China Galaxy Securities Co., Limited has been appointed by the Company as the independent financial adviser in China to prepare an independent financial report in relation to each of Lease Agreement 1, Lease Agreement 2, Lease Agreement 3 and Catering Agreement which is required to be published in the newspaper in the PRC.

8. FINANCIAL SERVICES AGREEMENT

The first financial services agreement between the Company and the Finance Company was entered into on 22 May, 1997 for a term of three years. The Stock Exchange had, in a letter dated 24 April, 1998, granted the Company waiver from strict compliance with Chapter 14 under the then applicable Listing Rules in relation to, among other transactions, the first financial services agreement and the transactions contemplated thereunder. The first financial services agreement was extended in 2000 for six years to 22 May, 2006. The Stock Exchange is looking into the matter of whether the Company had complied with the requirements of the Listing Rules during the extended term of the first financial services agreement and the Company will publish further announcement in this respect. In order to comply with the new requirements under the Listing Rules, the Company and the Finance Company are now entering into the Financial Services Agreement so that the Finance Company could continue to provide deposit of money service and, subject to the execution of separate agreements with the Company and further compliance with the Listing Rules, other financial services to the Company. The Provision of Deposit Service constitutes a discloseable and non-exempt continuing connected transaction, and is conditional upon approval by the Independent Shareholders.

DATE

12 November, 2004

PARTIES

(a) The Company.

(b) The Finance Company, a subsidiary of CSAHC which is owned as to 42% by CSAHC, 32% by the Company and 26% in aggregate by five subsidiaries of the Company, namely 8% by Xiamen Airlines Company Limited, 8% by Southern Airlines Group Shantou Airlines Company Limited, 4% by Guangxi Airlines Company Limited, 4% by Zhuhai Airlines Company Limited and 2% by Guangzhou Nanland Air Catering Company Limited. The principal business activity of the Finance Company is that of providing various financial services, which it is authorised to carry out under the applicable rules and regulations of the PRC.

FINANCIAL SERVICES

The Finance Company agrees to provide to the Company the following financial services:

(1) Accept deposit of money from the Company at interest rates not lower than those set by the PBOC for the same term of deposit. The Finance Company will in turn deposit the whole of such

sums of money with certain banks including Bank of Agriculture, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China.

(2) Make loans to the Company subject to the entering into of separate loan agreements, which will set out the Cap, terms and conditions of the loans, upon application by the Company during the term of the Financial Services Agreement. The Company will comply with the Listing Rules when entering into such separate written agreements. The Finance Company shall not charge interest rates higher than those set by the PBOC for similar loans. The total amount of outstanding loans extended by the Finance Company to the Company must not exceed the sum of the Finance Company's shareholders' equity, capital reserves and money deposit received from other parties (except the Company).

(3) Provide credit facilities, financial guarantees, credit references, and other financial services subject to the entering into of separate agreements, which will set out the Cap, terms and conditions of such services, upon request by the Company during the term of the Financial Services Agreement. The Company will comply with the Listing Rules when entering into such separate written agreements.

TERM OF THE FINANCIAL SERVICES AGREEMENT

The Financial Services Agreement is for a fixed term of 3 years, commencing from the date of the agreement, 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.

CONSIDERATION AND PAYMENT TERMS

The Company is not subject to any extra charges for depositing money with the Finance Company. For the other financial services provided by the Finance Company under the Financial Services Agreement, the Company is liable to pay the Finance Company the standard charging rates set by the PBOC. The PRC commercial banks also charge similar charging rates set by the PBOC.

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 the Finance Company.

THE CAP

The Cap for the Provision of Deposit Service under the Financial Services Agreement is set at RMB1 billion per year, based on the past figures on deposit of money with the Finance Company, and on the estimated amount of money to be deposited with

the Finance Company by the Company each year for the term of the Financial Services Agreement. The Company's deposit of money with the Finance Company was of the amount of RMB1,316,709,000, RMB877,499,000 and RMB346,357,000 as of 31 December, 2001, 31 December, 2002 and 31 December, 2003 respectively. The Company believes that the demand for air transportation will continue to increase following the growth trend in the aviation transportation market, thus the Company expects that it will substantially increase its deposits with the Finance Company for the next three years, as compared to the year ended 31 December, 2003 when the business of the Company was badly affected by the outbreak of severe acute respiratory syndrome. Taking into account the historical amount of the deposit of money with the Finance Company by the Company, the proposed Cap will sufficiently cover the proposed amount of the deposit of money with the Finance Company by the Company.

REASONS AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT

The Finance Company is a non-bank finance company established under the direction of the PBOC with the main business scope of providing various financial services, including deposit and loan facilities, credit facilities, guarantee, remittance of money and credit references, to CSAHC and its subsidiaries. The first financial services agreement between the Company and the Finance Company was entered into on 22 May, 1997. As the transactions under the first financial services agreement constituted connected transactions of the Company, details of which had been disclosed in the annual reports of the Company. In order to comply with the new requirements under the Listing Rules, the Company and the Finance Company are now entering into the Financial Services Agreement so that the Finance Company could continue to provide deposit of money service and, subject to the execution of separate agreements with the Company and further compliance with the Listing Rules, other financial services to the Company.

The Company usually receives interest on its money deposited with the Finance Company at rates which are more favourable than the benchmark interest rates set by the PBOC, usually in the range between the benchmark interest rates set by the PBOC and the inter-bank offer rates of interest. This arrangement allows the Company to achieve a more efficient use of its current capital, since the Company can enjoy better interest rates on depositing its current capital with the Finance Company than the benchmark rates of interest set by the PBOC that the PRC commercial banks can offer to the Company.

Subject to the entering into of further separate agreements, the Company can borrow from the Finance Company at interest rates not higher than those set by the PBOC for similar loans. In addition, the Company is not precluded under the Financial Services Agreement to borrow money from other PRC commercial banks where the terms and conditions are favourable. The Company can also enjoy the convenience of other financial services at the rates of fees and commissions set by the PBOC, which are comparable to the rates charged by PRC commercial banks for similar services.

IMPLICATIONS UNDER THE LISTING RULES

As the Finance Company is a connected person of the Company under

the Listing Rules, the Provision of Deposit Service constitutes a discloseable and non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and requires the Company to comply with the reporting and announcement requirement and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules. The Board, including the independent non-executive Directors, believes that the terms of the Financial Services Agreement and the Provision of Deposit Service to be on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Listed Group and its shareholders as a whole.

An Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Financial Services Agreement and the Provision of Deposit Service. ICEA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement and the Provision of Deposit Service.

CSAHC and its associates are required to abstain from voting in respect of the proposed resolution to approve the Financial Services Agreement and the Provision of Deposit Service which will be conducted by poll.

The Company will comply with the Listing Rules when it enters into further separate agreements with the Finance Company in connection with the provision of loan facilities and other financial services by the Finance Company.

9. RECOMMENDATIONS

ICEA has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder. The Independent Board Committee, having taken into account the advice of ICEA, considers that the terms of the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Listed Group and its shareholders as a whole. The Independent Board Committee also considers the On-going Connected Transactions to be in the ordinary course of business, on normal commercial terms and the respective maximum aggregate annual values to be fair and reasonable. That being the case, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder.

10. EGM

Set out on pages 353 to 355 is a notice convening the EGM to be held at the headquarters of the Company at No. 278, Ji Chang Road, Guangzhou, Guangdong Province, the PRC on 31 December, 2004 at 9:00 am. If you are not able to attend and/or vote at the meeting, you are

strongly urged to complete the accompanying 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 24 hours before the time appointed for the holding of the meeting

or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 27 to 28 of this circular, the letter from ICEA to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the information set out in the appendices to this circular.

The text of the letters and the valuation certificates issued by Chesterton in connection with its valuation are set out in Appendix VIII "Property Valuation". Since the parcels of lands and the number of buildings are too numerous, the Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 5.06 of the Listing Rules regarding the form of presentation in this circular of the valuation report on the following conditions:

(1) the full valuation reports (which will be prepared in Chinese language only) in compliance with the requirements of Chapter 5 and Practice Note 12 of the Listing Rules will be available for public inspection; and

(2) summary valuation reports prepared on the basis of the full valuation reports which (i) set out separately the interests in land and buildings according to the following groups, namely "Properties to be acquired by the Company from CSAHC", "Properties under construction to be acquired by the Company from CSAHC", "Properties to be rented by the Company from CSAHC", "Properties held by the Group in the PRC", "Properties held by the Group in Western Australia", "Properties held by the Group in the Netherlands", "Properties held under construction by the Group in the PRC", and "Properties rented by the Group"; (ii) for each of the above groups (except for "Properties to be rented by the Company from CSAHC" and "Properties rented by the Group") set out separately interests in land and buildings on the basis of the subsidiary or branch of CSAHC or the Listed Group at different locations where the buildings and lands are held.

By Order of the Board
YAN ZHI QING
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

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

12 November, 2004

To the Independent Shareholders

Dear Sirs or Madams,

VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its shareholders dated 12 November, 2004 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires. The purpose of the Independent Board Committee is to advise you as to whether, in our opinion, the terms of the Sale and Purchase Agreement, Financial Services Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and its shareholders as a whole.

ICEA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Sale and Purchase Agreement, Financial Services Agreement and the transactions contemplated thereunder from a financial perspective. Details of ICEA's conclusion and advice, together with the principal factors and reasons considered in arriving at such conclusion and advice, are set out in its letter on pages 29 to 48 of the Circular. We urge you to read that letter carefully.

As your Independent Board Committee, we have discussed with the management of the Company for the reasons for the Sale and Purchase Agreement, Financial Services Agreement and the transactions contemplated thereunder, and the basis upon which their terms have been determined. We have also taken into account the principal factors and reasons considered by ICEA regarding the Sale and Purchase Agreement, Financial Services Agreement and the transactions contemplated thereunder, and its conclusion and advice.

The Independent Board Committee concurs with the view of ICEA that the terms of the Sale and Purchase Agreement, Financial Services Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the shareholders as a whole. The Independent Board Committee also considers the Financial Services Agreement and the transactions contemplated thereunder to be in the ordinary course of business, on normal commercial terms and the

respective maximum aggregate annual values to be fair and reasonable. That being the case, we advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,

THE INDEPENDENT BOARD COMMITTEE

SIMON TO

PETER LOK

WEI MING HAI

WANG ZHI

SUI GUANG JUN

Independent non-executive Directors

LETTER FROM ICEA

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from ICEA regarding the Acquisition and the Provision of Deposit Service for the purpose of incorporation in this circular.

[ICEA LOGO]
A Subsidiary
of ICBC
[CHINESE CHARACTERS]

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[CHINESE CHARACTERS]
[CHINESE CHARACTERS]
[CHINESE CHARACTERS]
[CHINESE CHARACTERS]:(852) 22
[CHINESE CHARACTERS]:(852) 25

12 November, 2004

To the Independent Board Committee of
China Southern Airlines Company Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
AND
DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Provision of Deposit Service. This letter has been prepared for inclusion in the circular dated 12 November, 2004 (the "Circular") issued to the Shareholders and capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Company entered into the Sale and Purchase Agreement with CSAHC, Northern Airlines and Xinjiang Airlines on 12 November, 2004 and entered into the Financial Services Agreement with the Finance Company on 12 November, 2004. As at the Latest Practicable Date, CSAHC was interested in approximately 50.30% of the existing issued share capital of the Company. Accordingly, CSAHC is a controlling shareholder of the Company under the Listing Rules, and it and its associates (as defined in the Listing Rules) are regarded as connected persons of the Company under the Listing Rules. The Finance Company is owned as to 42% by CSAHC and is therefore regarded as a connected person of the Company under the Listing Rules. For details, please refer to the letter from the Board (the "Letter from the Board") set out in the Circular. Pursuant to the Listing Rules, the Acquisition constitutes both a very substantial acquisition and a connected transaction for the Company, which will be subject to, inter alia, the Independent Shareholders' approval at the EGM to be taken by poll. The Provision of Deposit Service constitutes a discloseable and non-exempt continuing connected transaction under the Listing Rules and requires compliance with the reporting and announcement requirement and the independent shareholders' approval requirement under the

Listing Rules. CSAHC, the controlling shareholder of the Company and its associates will abstain from voting at the EGM to be convened to approve the Sale and Purchase Agreement, the Financial Services Agreement and the transactions contemplated thereunder which will be conducted by poll. The Independent Board Committee has been formed to advise the Independent Shareholders on whether the terms and conditions of the Sale and Purchase Agreement and the Financial Services Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We, ICEA Capital Limited, have been retained as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and the Financial Services Agreement and the transactions contemplated thereunder, from a financial perspective, are fair and reasonable and in the interest of the Company as a whole so far as the Independent Shareholders are concerned.

In formulating our opinion with regard to the Acquisition and the Provision of Deposit Service, we have reviewed, amongst other things, the Circular, the Sale and Purchase Agreement, the financial projections and the financial statements of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group, the Zhong Qi Hua Valuation Reports and the Financial Services Agreement. We considered information, given in writing and orally, by the Directors, the Company's financial adviser, and the management of the Company and the Target Group. We also reviewed such research studies and publicly available information as we deemed necessary. We have relied, without assuming any responsibility for independent verification, on the information and facts about the Acquisition and the Provision of Deposit Service supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are true, accurate, and complete in all material respects as of the date hereof and have relied upon them. We also assumed that all statements of intention of the Company's management or its Directors, as set forth in the Circular, will be implemented. With respect to any historical costs and financial statements, financial forecasts, estimates, working capital statements and projections relating to the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group and the Provision of Deposit Service, we have assumed that each was prepared on bases reflecting the best currently available information, views, and judgments of the historical and future financial revenues and expenses involved in the Business and Assets and the Provision of Deposit Service and may be relied upon by us in formulating our opinion. We have also assumed that each of the Sale and Purchase Agreement and the Financial Services Agreement, is enforceable against each of the parties thereto in accordance with its terms and that each of the parties will perform, and will be able to perform, its obligations thereunder, and as otherwise described in the Circular, in full when due.

We have been advised by the Board that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the

Board. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the commercial viability or the future prospects of the Acquisition or the financial condition or future prospects of the Business and Assets or the Provision of Deposit Service or the Company. We have further assumed that all material governmental, regulatory, or other consents and approvals necessary for the effectiveness and implementation of the Acquisition and the Provision of Deposit Service have been or will be obtained without any adverse effect on the Business and Assets, the Company or the contemplated benefits to the Company.

This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition and the Provision of Deposit Service and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

ICEA is a deemed licensed corporation to carry out regulated activities of dealing in securities, advising on securities and corporate finance and asset management under the SFO. ICEA and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts.

PRINCIPAL FACTORS CONSIDERED

1. THE ACQUISITION

In arriving at our opinion, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all the analyses taken as a whole.

(a) PRINCIPAL BUSINESS OF THE LISTED GROUP

The Listed Group is one of the largest airlines in the PRC and is headquartered in Guangzhou with 12 operational bases in central and Southern China, offering regular flights on 248 domestic routes to over 69 cities in China, 18 routes to Hong Kong, and 45 international routes to 24 cities in East and Southeast Asia, Australia, North American and Europe, as of 30 June, 2004. However, due to the lack of operational bases, the Company is only capable of offering very limited flight services in Northern China and Northwestern China.

(b) CONSOLIDATION AND RESTRUCTURING TREND OF GLOBAL AVIATION INDUSTRY

In recent years, the global aviation industry has experienced a period of consolidation and restructuring characterised by mergers and acquisitions of airlines within and across the regions. The principal rationale and objective of such wave of global consolidation and

restructuring is to achieve economies of scale by merging the operations of different airlines, to reduce redundancies, and thus to enhance operating efficiencies of the airlines.

(c) CONSOLIDATION AND RESTRUCTURING OF AVIATION INDUSTRY IN THE PRC

In the second half of 2000, the CAAC introduced a policy with the principle of restructuring of the PRC aviation industry on a voluntary basis under government directives and taking advantage of economies of scale. Under the policy, domestic airlines are encouraged to consolidate, centering around CSAHC, Air China Group and Eastern Air Group. On 27 April, 2001, the CAAC announced such consolidation and restructuring plan of the PRC aviation industry in details. On the same date, CSAHC informed the Company that in order to take advantage of economies of scale, the CSAHC voluntarily participates in the consolidation and restructuring plan of the PRC aviation industry under the government proposals.

On 11 October, 2002, the consolidation and restructuring proposal of the PRC aviation industry was approved in principle by the State Council of the PRC. As a result, all the equity interest of Northern Airlines and Xinjiang Airlines were transferred to CSAHC. The Listed Group and CSAHC since then have been preparing for the injection of the Business and Assets into the Listed Group in order to achieve economies of scale and enhance the competitiveness of the core business of the Listed Group.

(d) REASONS FOR AND BENEFITS OF THE ACQUISITION

We have considered the reasons for and benefits of the Acquisition as highlighted in the Letter from the Board and we have noted the following:

- the Acquisition is in line with the global trend of consolidation and restructuring of the aviation industry;

- the Acquisition is in line with the consolidation and restructuring strategy adopted by the Listed Group in light of the proposed consolidation and restructuring plans of the PRC aviation industry and the CSAHC;

We concur with the Board's view that:

- the Acquisition represents an attractive opportunity for the Listed Group to consolidate its strong market position as both Northern Airlines and Xinjiang Airlines are leading airlines in their respective operating regions;

- the Acquisition will bring various benefits to the Listed Group, including broadening its flight network, enhancing its international air transportation business, increasing its fleet size and transportation capacity, enhancing its air ticket sales network; strengthening its marketing efforts; reducing its operating costs and boosting its overall efficiency; and

- the Acquisition is in line with the non-competition undertaking granted by the CSAHC to the Company when the Company was listed on the Stock Exchange in 1997.

(e) PACKAGED DEAL

We notice that the Business and Assets to be acquired consist of certain Airline Operations, assets and properties of Northern Airlines Group and Xinjiang Airlines Group, including aircraft, engines, spare parts, aviation equipment and facilities, properties, office facilities, and other fixed, current and intangible assets. As the Acquisition is a packaged deal, the Business and Assets cannot be divided up and the Company can only acquire the Business and Assets as a whole.

(f) BUSINESS AND ASSETS TO BE ACQUIRED AND THE DEBTS TO BE ASSUMED

(a) The Business and Assets to be acquired consist of certain Airline Operations, assets and properties of Northern Airlines Group and Xinjiang Airlines Group, including aircraft, engines, spare parts, aviation equipment and facilities, properties, office facilities, and other fixed, current and intangible assets.

(b) The Debts to be assumed consist of all indebtedness in the aggregate sum of RMB15,090,109,000 (equivalent to approximately HK$14,235,952,000) owed by Xinjiang Airlines Group or Northern Airlines Group in connection with their civil aviation business.

Both Northern Airlines and Xinjiang Airlines are leading airlines in their respective operating regions offering passenger and cargo air transportation and other related services.

Northern Airlines Group is headquartered in Shenyang with operational bases in Dalian, Changchun and Harbin. Northern Airlines Group's operating region is predominantly in Northeastern China. It is also the dominant Chinese airline serving flight routes to Korea and Japan due to the proximity of its operating region to those countries.

Xinjiang Airlines Group is headquartered in Urumqi, with operational bases and operating region in the Xinjiang autonomous region. It also commands a strong market position on domestic routes between Xinjiang and other parts of China, and on international routes to Russia, the Middle East and West Asia.

We summarise below the operating revenue, operating profit before interest, taxation, depreciation, amortization and rental under operating leases ("EBITDAR"), the operating profit/loss, and the net profit/loss of (i) the Airline Operations of Northern Airlines Group; and (ii) the Airline Operations of Xinjiang Airlines Group for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004.

(i) The Airline Operations of Northern Airlines Group

FOR THE SIX-MONTH PERIOD

	FOR THE YEARS ENDED 31 DECEMBER,			FOR THE SIX-MONTH PERIOD ENDED 30 JUNE,
	2001 (RMB million)	2002 (RMB million)	2003 (RMB million)	2004 (RMB million)
Operating revenue	5,203	5,244	5,929	3,465
EBITDAR	588	403	635	863
Operating (loss)/profit	(126)	(308)	(61)	369
Net (loss)/profit	(502)	(1,141)	(1,234)	135

(ii) The Airline Operations of Xinjiang Airlines Group

	FOR THE YEARS ENDED 31 DECEMBER,			FOR THE SIX-MONTH PERIOD ENDED 30 JUNE,
	2001 (RMB million)	2002 (RMB million)	2003 (RMB million)	2004 (RMB million)
Operating revenue	2,174	2,353	2,152	1,215
EBITDAR	778	821	568	303
Operating profit/(loss)	269	197	(39)	(0.2)
Net profit/(loss)	41	3	(299)	(44)

The Airline Operations of Northern Airlines Group

Operating revenue

For the year ended 31 December, 2002, the operating revenue of the Airline Operations of Northern Airlines Group was approximately RMB5,244 million

(equivalent to approximately HK$4,947 million), an increase of approximately RMB41 million (equivalent to approximately HK$39 million) from 2001. The increase was primarily due to the increase in cargo and mail revenue driven by the increase in overall yield per RFTK resulting from the suspension of certain routes with low yield in the year.

For the year ended 31 December, 2003, the operating revenue of the Airline Operations of Northern Airlines Group was approximately RMB5,929 million (equivalent to approximately HK$5,593 million), an increase of approximately RMB685 million (equivalent to approximately HK$646 million) from 2002. The increase was primarily due to the increase in passenger revenue resulting from increase in traffic volume and passenger yield in the year. The increase in traffic volume was the result of rescheduling of certain major routes in October 2002 while the increase in passenger yield

was mainly due to the exemption of the CAAC infrastructure fund and sales tax during the period from 1 May, 2003 to 31 December, 2003.

For the six-month period ended 30 June, 2004, the operating revenue of the Airline Operations of Northern Airlines Group was approximately RMB3,465 million (equivalent to approximately HK$3,269 million).

EBITDAR

For the year ended 31 December, 2002, the EBITDAR of the Airline Operations of Northern Airlines Group was approximately RMB403 million (equivalent to approximately HK$380 million), a decrease of approximately RMB185 million (equivalent to approximately HK$175 million) from 2001. The decrease was primarily due to the increase in operating expenses resulting from increase in landing and navigation fees and repair and maintenance.

For the year ended 31 December, 2003, the EBITDAR of the Airline Operations of Northern Airlines Group was approximately RMB635 million (equivalent to approximately HK$599 million), an increase of approximately RMB232 million (equivalent to approximately HK$219 million) from 2002. The increase was mainly due to the increase in operating revenue outweighing the operating expenses in the year.

For the six-month period ended 30 June, 2004, the EBITDAR of the Airline Operations of Northern Airlines Group was approximately RMB863 million (equivalent to approximately HK$814 million).

Operating profit/loss

As there were no significant changes in the depreciation and amortisation expenses, as a result of the reasons mentioned in the analysis of operating revenue and EBITDAR above, for each of the years in the three-year period ended 31

December, 2003, the operating loss of the Airline Operations of Northern Airlines Group were approximately RMB126 million (equivalent to approximately HK$119 million), approximately RMB308 million (equivalent to approximately HK$291 million) and approximately RMB61 million (equivalent to approximately HK$58 million) respectively.

For the six-month period ended 30 June, 2004, the Airline Operations of Northern Airlines Group had an operating profit of approximately RMB369 million (equivalent to approximately HK$348 million).

The Airline Operations of Xinjiang Airlines Group

Operating revenue

For the year ended 31 December, 2002, the operating revenue of the Airline Operations of Xinjiang Airlines Group was approximately RMB2,353 million (equivalent to approximately HK$2,220 million), an increase of approximately RMB179 million (equivalent to approximately HK$169 million) from 2001. The increase was mainly due to the increase in passenger revenue driven by an increase in traffic volume.

For the year ended 31 December, 2003, the operating revenue of the Airline Operations of Xinjiang Airlines Group was approximately RMB2,152

million (equivalent to approximately HK$2,030 million), a decrease of approximately RMB201 million (equivalent to approximately HK$190 million). The decrease was primarily due to the decrease in passenger revenue resulting from a decrease in passenger yield.

For the six-month period ended 30 June, 2004, the operating revenue of the Airline Operations of Xinjiang Airlines Group was approximately RMB1,215 million (equivalent to approximately HK$1,146 million).

EBITDAR

For the year ended 31 December, 2002, the EBITDAR of the Airline Operations of Xinjiang Airlines Group was approximately RMB821 million (equivalent to approximately HK$775 million), an increase of approximately RMB43 million (equivalent to approximately HK$41 million) from 2001. The increase was mainly due to the increase in operating revenue outweighing the increase in operating expenses.

For the year ended 31 December, 2003, the EBITDAR of the Airline Operations of Xinjiang Airlines Group was approximately RMB568 million (equivalent to approximately HK$536 million), a decrease of approximately RMB253 million (equivalent to approximately HK$239 million) from 2002. The

decrease was primarily due to increase in maintenance expenses resulting from increase in utilisation rates of aircraft and increase in aircraft and traffic servicing expenses as a result of increase in the charge rate for domestic landing and navigation fees effective September 2002.

For the six-month period ended 30 June, 2004, the EBITDAR of the Airline Operations of Xinjiang Airlines Group was approximately RMB303 million (equivalent to approximately HK$286 million).

Operating profit/loss

For the year ended 31 December, 2002, the operating profit of the Airline Operations of Xinjiang Airlines Group was approximately RMB197 million (equivalent to approximately HK$186 million), a decrease of approximately RMB72 million (equivalent to approximately HK$68 million) from 2001. The decrease was mainly due to the increase of depreciation and amortisation expenses as a result of addition of one Boeing 757-200 aircraft and two 757-200 jet engines during 2002 and the impairment loss recognised on aircraft and other flight equipment.

As there was no significant changes in the depreciation and amortisation expenses for the year ended 31 December, 2003, as a result of the reasons mentioned in the analysis of EBITDAR above, for the year ended 31 December, 2003, the operating loss of the Airline Operations of Xinjiang Airlines Group was approximately RMB39 million (equivalent to approximately HK$37 million) as oppose to operating profit of approximately RMB197 million (equivalent to approximately HK$186 million) in 2002.

For the six-month period ended 30 June, 2004, the operating loss of the Airline Operations of Xinjiang Airlines Group was approximately RMB0.20 million (equivalent to approximately HK$0.19 million).

In addition, certain prospective financial information in respect of the

Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ending 31 December, 2004 has been prepared by the Target Group. Based on the assumptions set out in Appendix VI to the Circular and in the absence of unforeseen circumstances, the Board believes that the combined profit after taxation and minority interests but before the extraordinary items for the year ending 31 December, 2004 under IFRS is unlikely to be less than RMB148 million (equivalent to approximately HK$140 million). The Company and the Target Group are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December, 2004 which would affect the prospective financial information prepared.

(g) FINANCIAL POSITION OF THE AIRLINE OPERATIONS OF THE TARGET GROUP

The table below sets forth the financial position of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ended 31 December, 2003 and the six-month period ended 30 June, 2004:

	NORTHERN AIRLINES GROUP		XINJIANG AIRLINE	
	FOR THE YEAR ENDED 31 DECEMBER, 2003 (RMB million)	FOR THE SIX-MONTH PERIOD ENDED 30 JUNE, 2004 (RMB million)	FOR THE YEAR ENDED 31 DECEMBER, 2003 (RMB million)	FOR MON (RMB
Net current liabilities	1,442	1,631	1,072	
Net assets	821	956	929	
Net cash flow from operating activities	540	222	296	

As revealed from the table above, both the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group had net current liabilities position but positive net assets value as at 30 June, 2004. We note that due to the capital intensive nature of aviation industry, it is not unusual for aviation companies to have net current liabilities position. We have also reviewed the working capital statements of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the eighteen months ending 31 December, 2005 which have been prepared by the Company. We concur with the Board's view that the Airline Operations of the Target Group would have sufficient operating cash flow to support its operations.

(h) BASIS OF THE CONSIDERATION

The Sale and Purchase Agreement was entered into after arm's length negotiations between the Company and the Vendors, and the provisional amount of the consideration of the Acquisition, and of the Debts to be assumed under the Sale and Purchase Agreement are set at RMB16,912,244,600 (equivalent to approximately HK$15,954,948,000) and RMB15,090,109,000 (equivalent to approximately HK$14,235,952,000) respectively. The amounts are arrived at after arm's length negotiations between the Company and the

Vendors, with reference to the valuation of the Business and Assets, and the Debts set out in the Zhong Qi Hua Valuation Reports.

The Zhong Qi Hua Valuation Reports value the Business and Assets at RMB16,912,244,600 (equivalent to approximately HK$15,954,948,000), and the Debts at RMB15,090,109,000 (equivalent to approximately HK$14,235,952,000) respectively, as at 31 December, 2003 which is equivalent to the provisional amount of the consideration of the Acquisition, and of the Debt to be assumed under the Sale and Purchase Agreement respectively.

We have reviewed the Zhong Qi Hua Valuation Reports, we consider the valuation methodologies used in appraising the Business and Assets, and the Debts are fair and reasonable.

The provisional amount of the consideration of the Acquisition, and of the Debts to be assumed by the Company will be subject to adjustment and finalisation based on the book value of the Business and Assets, and of the Debts as of the Effective Date, as determined in the financial statements on the Business and Assets of the Target Group prepared in accordance with the PRC Accounting Rules and Regulations and audited by KPMG Huazhen. A portion of the final adjusted consideration of the Acquisition will be settled by way of assumption of the final adjusted Debts, with the remaining balance to be payable by the Company to the bank account designated by the Vendors in cash.

(i) FINANCING OF THE ACQUISITION

Under the Sale and Purchase Agreement, the provisional amount of the consideration of the Acquisition, and of the Debts to be assumed under the Sale and Purchase Agreement are set at RMB16,912,244,600 (equivalent to approximately HK$15,954,948,000) and RMB15,090,109,000 (equivalent to approximately HK$14,235,952,000) respectively. The remaining balance of approximately RMB1,822,135,600 (equivalent to approximately HK$1,718,996,000), subject to adjustment, is to be payable by the Company to the Vendors in cash. We understand from the Company that in determining the payment method, the major portion of the consideration to be satisfied through the assumption of Debts with the remaining to be settled in cash, it took into consideration the current and future cash requirements of the Listed Group and the Target Group. The Board believes that such arrangement should not cause material negative impact to the Group's business operations. The Company confirmed that it has sufficient internal resources to fund the cash payment for the Acquisition without a material negative impact on its ongoing operations and capital expenditure requirements. As at 30 June, 2004, the Listed Group had cash and cash equivalents of approximately RMB2,932 million (equivalent to approximately HK$2,766 million). The Company further confirmed that it has sufficient internal and external financial resources for its ongoing operations and capital expenditure requirements.

Based on the above, we consider that the terms for the financing of the Acquisition are fair and reasonable from a financial point of view, insofar as the Independent Shareholders are concerned.

(j) VALUATION OF THE BUSINESS AND ASSETS

For aviation companies, due to the heavy capital investment in aircraft, their profitability will, to a large extent be distorted by the

policy and the amount of depreciation and amortization of aircraft. Further, the methods and terms of financing for aircraft will also significantly affect the operating performance of an aviation company. Due to the specific nature of aviation industry, in order to fairly compare the operating profitability (without being distorted by depreciation, amortization and financing terms) of the Target Group with those of other comparable aviation companies in the market, in

addition to price/earning ratio ("PER") analysis, we have made reference to another commonly used market valuation benchmark for aviation companies, the EV/EBITDAR factor, being the quotient of the enterprise value ("EV") divided by the operating profit before interest, taxation, depreciation, amortization and rental under the operating leases ("EBITDAR") in assessing the valuation of the Target Group. EV is defined as the sum of the equity value of a company plus its total debt minus its cash balances.

The total amount of consideration for the Acquisition of RMB16,912,244,600 (equivalent to approximately HK$15,954,948,000) implies an EV for the Target Group of approximately RMB16,390,513,600) (equivalent to approximately HK$15,462,833,000) being the total amount of consideration for the Acquisition minus the combined cash and cash equivalents of the Target Group of approximately RMB521,731,000 (equivalent to approximately HK$492,115,000).

Set out below is the summary of the PER as well as the EV/EBITDAR factor of 15 listed aviation comparables in the Asia Pacific region (the "Aviation Comparables") (including five listed aviation comparables in the PRC (the "PRC Aviation Comparables")) and the Target Group:

NAME OF AVIATION COMPARABLE	ESTIMATE PER(1)	E
Air New Zealand Limited	9.24	
All Nippon Airways Co., Ltd.	35.79	
Cathay Pacific Airways Ltd.	11.90	
China Airlines	15.60	
China Eastern Airlines Corporation Limited(4)	11.88	
China National Aviation Company Limited(4)	17.29	
China Southern Airlines Company Limited(4)	20.27	
Hainan Airlines Company Limited(4)	23.86	
Japan Airlines Corporation	23.61	
Korean Air Lines Co. Ltd.	14.53	
Malaysian Airline System Berhad	15.76	
Qantas Airways Limited	8.75	
Shanghai Airlines Co., Ltd.(4)	25.84	
Singapore Airlines Ltd.	12.44	
Thai Airways International Public Company Limited	7.92	
Range for Aviation Comparables(3)	8.75-25.84	2
Average for Aviation Comparables(3)	16.23	
Range for PRC Aviation Comparables(3)	17.29-23.86	8
Average for PRC Aviation Comparables(3)	20.47	
Target Group(5)	12.31	

(1) Based on consensus brokers' estimates on the forth coming financial year (source: Bloomberg).

(2) Calculated based on the latest audited results announced by Aviation Comparables and their respective closing share prices as at 10 November, 2004.

(3) Excluding the highest and lowest valuations.

(4) PRC Aviation Comparable.

(5) Calculated based on the forecasted combined profit after taxation and minority interests but before the extraordinary items of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ending 31 December, 2004 under IFRS of RMB148 million.

Based on the market comparables statistics, we note that the consideration for the Acquisition is within the range of the valuation of Aviation Comparables and slightly below the average of the valuation of PRC Aviation Comparables. On these bases, we consider the acquisition price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(k) PRO FORMA EFFECTS TO THE COMPANY

We have conducted various analyses on the potential financial effects of the Acquisition on the Listed Group, which were extracted from or prepared based on the accountants' report of the Listed Group and unaudited pro forma financial information of the Listed Group and the Target Group (collectively the "Combined Group") as set out in Appendix V to the Circular.

(i) Earnings

The pro forma earnings per share of the Combined Group for the six-month period ended 30 June, 2004, would be approximately RMB0.08 (equivalent to approximately HK$0.08), which is approximately 36% higher than the actual earnings per share of the Listed Group for the same period.

Based on our discussion with the Directors and certain prospective financial information in respect of the Airline Operations of the Target Group for the year ending 31 December, 2004 prepared by the Company and the Target Group, we understand that the combined profit after taxation and minority interests but before the extraordinary items for the year ending 31 December, 2004 under IFRS is unlikely to be less than RMB148 million (equivalent to approximately HK$140 million). Assuming the consideration of the Acquisition is RMB1,897 million (equivalent to approximately HK$1,790 million) (which represents the aggregate amount of the net assets value of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as at 30 June, 2004 prepared under PRC Accounting Rules and Regulations) which will be satisfied by short term U.S. dollar bank loans amounting to RMB1,000 million (equivalent to approximately HK$943 million) and

cash of RMB897 million (equivalent to

approximately HK$846 million) and the Acquisition had taken place on 1 January, 2004, the annual interest expense arising from short term U.S. dollar bank loans bearing interest at 2.17% per annum would amount to approximately RMB21,700,000 (equivalent to approximately HK$20,472,000) and the reduction in the annual interest income of the cash consideration of RMB897 million (equivalent to approximately HK$846 million) to be taken from the internal resources depositing in certain PRC banks enjoying 0.72% deposit rate per annum would amount to RMB6,458,000 (equivalent to approximately HK$6,093,000). Taking into account the increase in interest expense and the reduction in interest income as a result of the Acquisition, the earnings of the Listed Group would increase by approximately RMB120 million (equivalent to approximately HK$113 million) for the year ending 31 December, 2004.

(ii) Gearing

The pro forma total debt (including obligations under finance lease) of the Combined Group would be approximately RMB34,974 million (equivalent to approximately HK$32,995 million) as at 30 June, 2004, representing an increase of approximately 57.97% from the total debt of approximately RMB22,139 million (equivalent to approximately HK$20,886 million) of the Listed Group at the same date. The pro forma net debt (total debt less cash and cash equivalents) of the Combined Group would increase to approximately RMB32,417 million (equivalent to approximately HK$30,582 million) from RMB19,207 (equivalent to approximately HK$18,120 million) for the Listed Group as of 30 June, 2004. The pro forma ratio of the Combined Group's net debt to total shareholders' equity would be approximately 267% as at 30 June, 2004, compared to approximately 158% for the Listed Group as at the same date. On a pro forma basis, the total debt to total capitalisation ratio would increase from 65% for the Listed Group to approximately 74% for the Combined Group. The increase in gearing ratio mainly results from the increase in borrowings following the assumption of Debts by the Company. We consider that the substantial increase in gearing ratio not only will increase the overall financial risk of the Group but also increase the financial burden and future financing costs of the Group.

(iii) Working capital

It is noted that the provisional amount of the consideration is set at approximately RMB16,912 million (equivalent to approximately HK$15,955 million), of which approximately RMB15,090 million (equivalent to approximately HK$14,236 million) will be settled by way of assumption of debt and the remaining balance of approximately RMB1,822 million (equivalent to approximately HK$1,719 million) will be financed by short term U.S. dollar bank loans amounting to RMB1,000 million, and the internal resources of the Listed Group. We understand from the Directors that having taken into account the existing cash and bank balance position of the Listed Group, the operating cash flow of the Combined Group, the

estimated capital expenditure of the Listed Group in the near future and the banking facilities available to the Listed Group, the Directors consider that the Acquisition would not have a material adverse impact on the normal operations of the Listed Group. We also note that as at 30 June, 2004, the Listed Group had cash and bank balances of approximately RMB2,932 million (equivalent to approximately HK$2,766 million) and had total available banking facilities of approximately RMB13,300 million (equivalent to approximately HK$12,500 million). We have also reviewed the working capital statements of the Listed Group, Northern Airlines Group and Xinjiang Airlines Group, respectively for the eighteen months ending 31 December, 2005, we concur with the Board's view that the Combined Group would have sufficient cash flow to support its operations and the Acquisition will not have a material adverse impact on the normal operations of the Listed Group.

2. PROVISION OF DEPOSIT SERVICE

In arriving at our opinion, we have considered, inter alia, the following principal factors and reasons:

(a) FINANCIAL SERVICES AGREEMENT

Pursuant to the Financial Services Agreement, the Listed Group will from time to time utilise the financial services available from the Financial Company. Such financial services include:

(1) Accept deposit of money from the Company at interest rates not lower than those set by the PBOC for the same term of deposit. The Finance Company will in turn deposit the whole of such sums of money with certain banks including Bank of Agriculture, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China.

(2) Make loans to the Company subject to the entering into of separate loan agreements, which will set out the Cap, terms and conditions of the loans, upon application by the Company during the term of the Financial Services Agreement. The Company will comply with the Listing Rules when entering into such separate written agreements. The Finance Company shall not charge interest rates higher than those set by the PBOC for similar loans. The total amount of outstanding loans extended by the Finance Company to the Company must not exceed the sum of the Finance Company's shareholders' equity, capital reserves and money deposit received from other parties (except the Company).

(3) Provide credit facilities, financial guarantees, credit references, and other financial services subject to the entering into of separate agreements, which will set out the Cap, terms and conditions of such services, upon request by the Company during the term of the Financial Services Agreement. The Company will comply with the Listing Rules when entering into such separate written agreements.

The Financial Services Agreement is for a fixed term of three years, commencing from the date of the agreement, 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. Upon the renewal of the Financial Services Agreement, the Company will comply with all applicable discloseable and connected transactions requirement of the Listing Rules, including the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company is not subject to any extra charges for depositing money with the Finance Company. For the other financial services provided by the Finance Company under the Financial Services Agreement, the Company is liable to pay the Finance Company the standard charging rates set by the PBOC. The PRC commercial banks also charge similar charging rates set by the PBOC.

The Company will make payment of 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 the Finance Company.

(b) INFORMATION RELATING TO THE FINANCE COMPANY

The Finance Company is a non-bank finance company established under the direction of the PBOC with the main business scope of providing various financial services, including deposit and loan facilities, credit facilities, guarantee, remittance of money and credit references, to CSAHC and its subsidiaries. The operations of the Finance Company are subject to the on-going supervision of the PBOC. The registered capital of the Finance Company is RMB424,329,500.

(c) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION WITH THE FINANCE COMPANY

CSAHC is the controlling shareholder of the Company with a beneficial interest of approximately 50.30% of the existing issued share capital of the Company as at the Latest Practicable Date.

The Finance Company, a subsidiary of CSAHC which is owned as to 42% by CSAHC, 32% by the Company and 26% in aggregate by five subsidiaries of the Company, and is a connected person of the Company under the Listing Rules. Accordingly, the transactions with the Finance Company contemplated under the Financial Services Agreement constitute continuing connected transactions under the Listing Rules, and are subject to the approval of the Independent Shareholders.

(d) REASONS FOR AND BENEFITS OF THE PROVISION OF DEPOSIT SERVICE

The pricing policy of the Finance Company and commercial banks in China are subject to guidelines set by the PBOC. Therefore, the charges by the Finance Company for its services to the Company is comparable to those charged by PRC banks for similar services.

The Company usually receives interest on its money deposited with

the Finance Company at rates which are more favourable than the benchmark interest rates set by the PBOC, usually in the range between the benchmark interest rates set by the PBOC and the inter-bank offer rates of interest. This arrangement allows the Company to achieve a more efficient use of its current capital, since the Company can enjoy better interest rates on depositing its current capital with the Finance Company than the benchmark rates of interest set by the PBOC that the PRC commercial banks can offer to the Company.

Subject to the entering into of further separate agreements, the Company can borrow from the Finance Company at interest rates not higher than those set by the PBOC for similar loans.

We have reviewed the Financial Services Agreement and we understand that it does not preclude the Company from choosing similar services provided by other commercial banks in the PRC where terms and conditions offered by other commercial banks are more favourable to the Company than those offered by the Finance Company. The Financial Services Agreement also provides that the Finance Company will provide relevant services to the Company on normal commercial terms, and on terms no less favourable than those available to the Company from independent third parties.

Based on the above analysis, we are of the view that the terms of the Financial Services Agreement are fair and reasonable.

(e) CAP FOR THE PROVISION OF DEPOSIT SERVICE

Set out below is a summary of the Cap for the deposit of money by the Company with the Finance Company from time to time under the Financial Services Agreement during the term of the Financial Services Agreement and the basis of determination of the Cap:

PROVISION OF DEPOSIT SERVICE	CAP	BASIS OF DETERMINATION OF THE CAP
The Cap for the deposit of money with the Finance Company from time to time during the term of the Financial Services Agreement	RMB1 billion	The Cap was determined based on past figures on deposit of money with the Finance Company, and on the estimated amount of money to be deposited with the Finance Company by the Company each year for the term of the Financial Services Agreement. As at 31 December, 2001, 2002 and 2003, the Company had deposits placed with the Finance Company amounted to approximately 1.32 billion, approximately

0.88 billion and approximately 0.35 billion.

We are given to understand that the low deposit of money by the Company with the Finance Company as at 31 December, 2003 was mainly due to material adverse impact caused by the outbreak of severe acute respiratory syndrome on the business operations of the Company during the first half of 2003.

We are of the view that the Cap for the deposit of money by the Company with the Finance Company which is determined based on the past figures on deposit of money with the Finance Company, and on the estimated amount of money to be deposited with the Finance Company by the Company each year for the term of the Financial Services Agreement to be fair and reasonable.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors in arriving at our opinion:

(a) the Acquisition represents an attractive opportunity for the Listed Group to consolidate its strong market position as both Northern Airlines and Xinjiang Airlines are leading airlines in their respective operating regions;

(b) the Board's representation that the terms of the Sale and Purchase Agreement and the Financial Services Agreement were negotiated on an arm's length basis;

(c) the provisional amount of the consideration of the Acquisition was determined based on the valuation of the Business and Assets, and the Debts set out in the Zhong Qi Hua Valuation Reports and will be subject to adjustment and finalisation based on the book value of the Business and Assets, and of the Debts as of the Effective Date;

(d) the consideration for the Acquisition is within the range of the valuation of Aviation Comparables and slightly below the average of the valuation of PRC Aviation Comparables;

(e) notwithstanding the gearing level of the Listed Group would be increased substantially and the financial burden of the Company would be increased as a result of the Acquisition, the Acquisition will bring various benefits to the Listed Group, including broadening its flight network, enhancing its international air transportation business, increasing its fleet size and transportation capacity, enhancing its air ticket sales network; strengthening its marketing efforts; reducing its operating costs and boosting its overall efficiency, which we consider is beneficial to the Group in the long run;

(f) the representations made by the Directors that the Provision of Deposit Service have been and will continue to be conducted in the ordinary and usual course of business, on normal commercial terms, and the terms have been determined after arm's length negotiation

between the parties;

(g) the waiver from strict compliance with the Listing Rules with respect to the Provision of Deposit Service will be subject to the satisfaction of various conditions, including that: (i) the transactions have been approved by the Independent Shareholders; (ii) the transactions will be entered into in the ordinary and usual course of business and on normal commercial terms that are fair and reasonable in so far as the Independent Shareholders are concerned; (iii) the Company shall disclose in its annual reports sufficient details of the transactions; (iv) the independent non-executive Directors of the Company review the transactions annually; (v) the Company's auditors review the transactions annually; and (vi) the value of Provision of Deposit Service does not exceed RMB1 billion; and

(h) the Stock Exchange has indicated that if the value of the Provision of Deposit Service exceeds RMB1 billion or if any of the terms of the Financial Services Agreement, or the nature of the Provision of Deposit Service is altered or if the Company entered into any new agreements with connected persons in the future, the Company will need to comply fully with all the relevant provisions of Chapter 14A of the Listing Rules.

RECOMMENDATION

Having considered the above principal factors and reasons and the terms of the Sale and Purchase Agreement and the Financial Services Agreement, we consider that the terms of the Acquisition and the Provision of Deposit Service, from a financial perspective, to be fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company as a whole. We urge the Independent Shareholders to note that as a result of the Acquisition, the gearing level of the Group would be increased substantially, which could have an adverse impact on the financial position of the Group as well as short term share price performance of the Company. However, as the Acquisition will bring various benefits to the Listed Group as mentioned in the Letter from the Board, we consider the Acquisition is beneficial to the Listed Group in the long run. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of ordinary resolutions numbered 1 and 6 as detailed in the notice of the EGM set out at the end of the Circular.

Yours faithfully,
For and on behalf of
ICEA CAPITAL LIMITED
GARY S K SIK
Managing Director

(1) INDUSTRY BACKGROUND

The civil aviation industry in China has experienced rapid growth over the

past decade. According to the National Bureau of Statistics of China, annual passenger number grew from 17 million in 1990 to 88 million in 2003, with a compound annual growth rate of approximately 14%. Air cargo volume also grew from 370 thousand tonnes in 1990 to 2 million tonnes in 2003, with a compound annual growth rate of approximately 15%. The total number of China's aviation routes also increased from 437 in 1990 to 1,176 by the end of 2003.

PASSENGER AND FREIGHT VOLUME CARRIED BY CHINESE AIRLINES (1990-2003)

[BAR CHARTS]

Passenger turnover(million)

1990-2003

1990	16.0
1991	21.8
1992	28.9
1993	33.8
1994	40.4
1995	51.2
1996	55.6
1997	56.3
1998	57.6
1999	60.9
2000	67.2
2001	75.2
2002	85.9
2003	87.6

Cargo turnover('000 tonnes)

1990-2003

1990	370
1991	452
1992	575
1993	694
1994	829
1995	1,011
1996	1,150
1997	1,247
1998	1,401
1999	1,700
2000	1,967
2001	1,710
2002	2,021
2003	2,190

Source: China Statistical Yearbook 2003

Despite rapid growth both in the passenger and cargo sectors, China's aviation market remains underdeveloped by global standards. Per capita passenger air trip numbers remain low relative to the more developed international markets.

AIR TRANSPORT CAPACITY FOR SELECTED COUNTRIES

[BAR CHARTS]

ATK (mm tonne km)

United States	123,283
Japan	22,469
United Kingdom	20,022
Germany	19,156
China	16,200
France	15,592
Singapore	14,140
South Korea	13,859
Netherlands	11,294
Australia	9,507

ATK (tonne km per capita)

Singapore	3,401
Netherlands	702
Australia	484
United States	429
United Kingdom	333
South Korea	291
France	260
Germany	233
Japan	177
China	13

Source: China Statistics for Civil Aviation 2003, EIU

Since the early 1990's, the Chinese government has begun to separate its function as regulator of the PRC civil aviation industry from its business management role at the major state-owned PRC airlines. As a result, CAAC ceased its participation in airline operations but still continues to exercise authority as the PRC civil aviation industry regulator. CAAC's regulatory roles include developing rules and regulations for the PRC civil aviation industry, directing the restructuring of the PRC airlines, enforcing flight safety rules and standards, managing air traffic, regulating air ticket prices, and overseeing aviation negotiations with foreign parties.

During the restructuring of the PRC airlines in 2002, the airlines previously under the control of CAAC were reorganized under three holding company groups. These three holding company groups were: (i) China National Aviation Holding Company including Air China Limited, China National Aviation Corporation, and China Southwest Airlines with main bases in Beijing, Hangzhou, and Chengdu; (ii) China Eastern Air Holding Company consisting of China Eastern Airlines Corporation Limited, China Eastern Yunnan Airlines, and China Eastern Northwest Airlines with main bases in Shanghai, Kunming, and Xian; and (iii)

CSAHC, the largest of the three holding companies, comprising the Company, Northern Airlines, and Xinjiang Airlines, with main bases in Guangzhou, Shenyang, and Urumqi.

Despite strong growth during the 1990's, PRC civil aviation industry suffered from the significant negative effects arising from the 911 attacks in 2001 and the outbreak of Severe Acute Respiratory Syndrome in early 2003. These negative effects included lower revenue from reduced passenger and cargo traffic and higher operating costs due to the increased cost of aviation insurance and the heightened security and health precautions. Traffic volumes have been recovering since Severe Acute Respiratory Syndrome was brought under control in July 2003.

In the post Severe Acute Respiratory Syndrome period, PRC civil aviation industry demonstrated strong growth on the back of solid economic expansion and a significant increase in commercial and leisure travel activities. On a year-to-August basis, 2004 is the strongest year for China's airlines with record turnover in both passenger and freight transportation.

PASSENGER VOLUME (MILLION)

PASSENGER VOLUME (MILLION)

[LINE GRAPH]

[PLOT POINTS TO COME]

Source: CEIC

REVENUE PASSENGER KILOMETRES (MILLION)

REVENUE PASSENGER KILOMETRES (MILLION)

[LINE GRAPH]

[PLOT POINTS TO COME]

Source: CEIC

FREIGHT CARRIED (MILLION TONNES)

[LINE GRAPH]
[PLOT POINTS TO COME]

FREIGHT CARRIED (MILLION)

Source: CEIC

As shown in the above charts, in the first eight months of 2004, passenger turnover and RPKs (a measurement for distance that passengers travel), reached a record of 80 million and 117 billion respectively compared to the same period of the previous years. In the same period, cargo turnover also surpassed historical levels, reaching 1.74 million tonnes.

(2) OVERVIEW OF THE TARGET GROUP

Northern Airlines was established on 19 October, 1990 following its separation from the Shenyang Bureau of the CAAC. Xinjiang Airlines, which began operations on 1 January, 1985, was formally separated in 2001 from the Urumqi Regional Bureau of the CAAC.

As part of the restructuring initiative of the PRC civil aviation industry in late 2002, Southern Airlines (Group), Northern Airlines and Xinjiang Airlines were restructured and consolidated into CSAHC.

Both Northern Airlines Group and Xinjiang Airlines Group are the leading airlines in their respective regions, offering passenger and cargo air transportation and other related services.

(a) KEY OPERATING DATA

Passenger and cargo air transportation are Northern Airlines Group's principal businesses. However, due to its lack of freight aircraft, Northern Airlines Group relies heavily on its passenger air transportation business. In 2003, revenues generated from passenger air transportation business accounted for approximately 93% of the total revenues while those from cargo services accounted for approximately 7%. Northern Airlines Group also provides aircraft maintenance and repair, and other aviation related services.

In the past three and a half years, Northern Airlines Group's passenger air transportation business continued to improve with overall passenger load factor increasing from 60% for 2001 to 67% for the first six months of 2004 and passenger yield per RPK rising from RMB0.58 for 2001 to RMB0.61 for the first six months of 2004. The cargo transportation business also showed material improvement with cargo yield per RFTK increasing 12% from RMB1.90 for year 2001 to RMB2.13 for the first six months of 2004. Key operating benchmarks of Northern Airlines Group from 2001 to the first half of 2004 are summarized as follows:

NORTHERN AIRLINES GROUP'S KEY OPERATING BENCHMARKS

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003	2002	20
PASSENGER TRAFFIC (RPK) (million)				
Domestic	4,652	8,234	7,800	6,
International	538	913	986	1,
Total	5,190	9,147	8,786	8,

APPENDIX I INFORMATION REGARDING THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP AND XINJIANG AIRLINES GROUP

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003	2002	20
REVENUE TONNE KILOMETRES (RTK) (million)				
Domestic	504	904	707	
International	57	101	90	
Total	561	1,005	797	
PASSENGER VOLUME (thousand)				
Domestic	3,258	5,831	5,501	4,
International	363	643	652	
Total	3,621	6,474	6,153	5,
CARGO AND MAIL CARRIED (thousand tonne)				
Domestic	47	94	74	
International	8	17	13	
Total	55	111	87	
CARGO TRAFFIC (RFTK) (million)				
Domestic	87	168	166	
International	9	19	15	
Total	96	187	181	
PASSENGER CAPACITY (ASK) (million)				
Domestic	6,722	12,226	12,232	11,
International	971	1,714	1,800	2,
Total	7,693	13,940	14,032	13,

APPENDIX I INFORMATION REGARDING THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP AND XINJIANG AIRLINES GROUP

	FIRST SIX MONTHS ENDED 30 JUNE,

	2004	2003	2002	20
AVAILABLE TONNE KILOMETRES (ATK) (million)				
Domestic	805	1,451	1,193	1,
International	115	205	186	
Total	920	1,656	1,379	1,
PASSENGER LOAD FACTOR				
Domestic	69%	67%	64%	
International	55%	53%	55%	
Overall	67%	66%	63%	
OVERALL LOAD FACTOR (RTK/ATK)				
Domestic	63%	62%	59%	
International	50%	49%	48%	
Overall	61%	61%	58%	
PASSENGER YIELD PER RPK (RMB)				
Domestic	0.57	0.55	0.50	0
International	0.98	0.97	0.87	0
Overall	0.61	0.60	0.54	0
CARGO YIELD PER RFTK (RMB)				
Domestic	1.51	1.56	1.59	1
International	7.77	7.89	8.25	8
Overall	2.13	2.20	2.16	1
YIELD PER RTK (RMB)				
Domestic	5.53	5.33	5.90	6
International	10.53	10.27	10.90	14
Overall	6.04	5.82	6.47	7
FLEET				
Airbus	17	12	10	
McDonald Douglas	35	35	36	
Others	3	3	19	
Total	55	50	65	

	FIRST SIX MONTHS ENDED

	30 JUNE, 2004	2003	2002	20
OVERALL UTILISATION RATE (hours per day)				
Airbus	8.8	7.8	8.3	
McDonald Douglas	9.1	7.8	8.2	
Overall	9.0	7.8	8.3	

Passenger and cargo air transportation are Xinjiang Airlines Group's principal businesses. In 2003, passenger air transportation business generated 96% of total revenues with freight transportation business accounting for 4%.

Xinjiang Airlines Group has managed to improve its domestic passenger load factor to 66% in the first half of 2004 from 59% in 2001. Passenger traffic as measured by RPK has also increased over the past three years. However, passenger yields suffered in 2003 and first half of 2004 due to increased competition. Key operating benchmarks from 2001 to the first half 2004 are summarized as follows:

XINJIANG AIRLINES GROUP'S KEY OPERATING BENCHMARKS

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003	2002	20
PASSENGER TRAFFIC (RPK) (million)				
Domestic	2,324	3,941	3,768	3,
International	92	151	148	
Total	2,416	4,092	3,916	3,
REVENUE TONNE KILOMETRES (RTK) (million)				
Domestic	241	415	417	
International	9	14	14	
Total	250	429	431	

	FIRST SIX MONTHS ENDED

	30 JUNE, 2004	2003	2002	20
PASSENGER VOLUME (thousand)				
Domestic	1,209	2,062	1,753	1,
International	55	86	75	
Total	1,264	2,148	1,828	1,
CARGO AND MAIL CARRIED (thousand tonne)				
Domestic	12	21	27	
International	-	-	-	
Total	12	21	27	
CARGO TRAFFIC (RFTK) (million)				
Domestic	33	62	81	
International	1	1	1	
Total	34	63	82	
PASSENGER CAPACITY (ASK) (million)				
Domestic	3,527	5,995	6,105	5,
International	195	302	331	
Total	3,722	6,297	6,436	6,
AVAILABLE TONNE KILOMETRES (ATK) (million)				
Domestic	378	597	674	
International	20	32	35	
Total	398	629	709	
PASSENGER LOAD FACTOR				
Domestic	66%	66%	62%	
International	47%	50%	45%	
Overall	65%	65%	61%	

FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003	2002	2001

OVERALL LOAD FACTOR (RTK/ATK)				
Domestic	64%	70%	62%	57%
International	45%	44%	40%	39%
Overall	63%	68%	61%	56%
PASSENGER YIELD PER RPK (RMB)				
Domestic	0.46	0.48	0.53	0.55
International	0.72	0.69	0.69	0.60
Overall	0.47	0.48	0.54	0.55
CARGO YIELD PER RFTK (RMB)				
Domestic	1.44	1.44	1.33	1.49
International	2.09	4.43	5.00	5.00
Overall	1.45	1.48	1.36	1.54
YIELD PER RTK (RMB)				
Domestic	4.75	4.70	5.51	5.83
International	8.12	7.74	8.25	7.74
Overall	4.87	4.80	5.56	5.86
FLEET				
Boeing	15	15	15	14
ATR 72 and IL86	5	5	8	8
Total	20	20	23	22
OVERALL UTILISATION RATE (hours per day)				
Boeing	10.0	8.8	8.9	10.1
ATR 72 and IL86	7.8	7.4	7.1	8.2
Overall	8.9	8.3	7.7	8.4

(b) OPERATIONAL BASES

Shenyang, Dalian, Harbin, and Changchun are the primary bases for Northern Airlines Group. Urumqi is the principal base for Xinjiang Airlines Group.

SHENYANG:

Taoxian Airport, located 22 kilometers south of Shenyang, was opened on 10 April, 1989. In the first half of 2004, Northern Airlines Group's passenger and cargo turnover at Taoxian Airport accounted for 25% and 28% of its total passenger and cargo turnover respectively.

The airport has a 3,200 meter runway, and is equipped with modern communication and navigation systems. Taoxian Airport is

owned and operated by Shenyang Taoxian Airport Limited, which estimates that Taoxian Airport handled approximately 31,400 landings, three million passengers and 88,000 tonnes cargo for the year 2003, making it one of the busiest airports in Northeastern China.

DALIAN:

Dalian Zhoushuizi Airport is located 10 kilometers northwest of Dalian. The airport handled 26% of the passenger turnover and 29% of the cargo turnover of Northern Airlines Group in the first half of 2004.

Opened on 6 April, 1973, Zhoushuizi Airport is the busiest airport in Northeastern China. The airport is owned and operated by Dalian Zhoushuizi International Airport Limited. Zhoushuizi Airport has a 3,300 meter runway, and is capable of handling commercial aircraft of all types. According to Dalian Zhoushuizi International Airport Limited, the airport handled 35,248 landings, three million passengers and 74,784 tonnes of cargo in 2003.

HARBIN:

Harbin Taiping Airport is located 33 kilometers northwest of Harbin. In the first half of 2004, the airport handled 16% of passenger turnover and 15% of cargo turnover of Northern Airlines Group.

Opened on 1 September, 1997, Taiping Airport is one of the largest airports in Northeastern China. Taiping Airport has a 3,200 meter runway, and is capable of handling Boeing 767 or equivalent aircraft. According to the airport, it handled 22,093 landings in 2003. Passenger and cargo turnover was two million and 31,300 tonnes respectively for the year.

CHANGCHUN:

Dafangshen Airport is Northern Airlines Group's operational base in Jilin province. Located 11 kilometers west of Changchun, the airport handled 15% of Northern Airlines Group's passenger turnover and 11% of cargo turnover in the first half of 2004.

Dafangshen Airport is the only international airport in Jilin province. It has a 2,600 meter runway and is capable of handling Boeing 737, Boeing 757 or equivalent aircraft. According to the airport, it handled 13,880 landings in 2003. Passenger and cargo turnover was one million and 15,700 tonnes respectively for the year.

In light of the rapid growth of passenger and cargo turnover at the Dafangshen Airport, CAAC and Jilin provincial government began construction of Longjiabao Airport in May 2003. The new airport is located 28 kilometers northeast of Changchun. Dafangshen Airport will cease operations when the new airport comes into operations.

URUMQI:

Urumqi Diwo Airport is located 17 kilometers northwest of Urumqi. In 2003, it handled 82% of Xinjiang Airlines Group's total passenger and cargo turnover.

Opened in 1973, Diwo Airport is currently one of the largest airports in Northwestern China. Equipped with a 3,600 meter runway and modern navigation systems, the airport is capable of handling commercial aircraft of all types. According to the airport, it handled 33,440 landings in 2003. Passenger and cargo turnover was three million and 47,900 tonnes respectively for the year.

(c) ROUTES NETWORK

From the four bases in Northeastern China, Northern Airlines currently offers regular flights on 106 domestic routes to over 46 cities in China and 29 international routes to North Asia and Russia.

Headquartered in Urumqi, Xinjiang Airlines is the leading air traffic service provider in Northwestern China. It offers regular flight services on 42 domestic routes. It also offers regular flight services on seven international routes to major cities in the Middle East, Russia and West Asia.

TOP 10 ROUTES OF NORTHERN AIRLINES GROUP BY REVENUE

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003
1.	Changchun-Beijing	Changchun-Beijing
2.	Shenyang-Beijing	Harbin-Shenyang-Shenzhen

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003
3.	Dalian-Beijing	Harbin-Dalian-Guangzhou
4.	Harbin-Beijing	Harbin-Beijing
5.	Dalian-Shanghai Pudong	Dalian-Beijing
6.	Harbin-Shenyang-Shenzhen	Shenyang-Beijing
7.	Harbin-Dalian-Guangzhou	Shenyang-Wenzhou-Guangzhou
8.	Shenyang-Shanghai Pudong	Shenyang-Shanghai Pudong

9.	Shenyang-Wenzhou-Guangzhou	Dalian-Shanghai Pudong
10.	Dalian-Hangzhou-Shenzhen	Dalian-Hangzhou-Shenzhen

TOP 10 ROUTES OF XINJIANG AIRLINES GROUP BY REVENUE

	FIRST SIX MONTHS ENDED 30 JUNE, 2004	2003
1.	Urumqi-Beijing	Urumqi-Beijing
2.	Urumqi-Shanghai	Urumqi-Shanghai
3.	Urumqi-Changsha-Shenzhen	Urumqi-Kashi
4.	Urumqi-Chengdu	Urumqi-Changsha-Shenzhen
5.	Urumqi-Guangzhou	Urumqi-Guangzhou
6.	Urumqi-Kashi	Urumqi-Chengdu
7.	Urumqi-Lanzhou-Hangzhou	Urumqi-Lanzhou-Hangzhou
8.	Urumqi-Zhengzhou-Qingdao	Urumqi-Zhengzhou-Qingdao
9.	Urumqi-Yili	Urumqi-Xian
10.	Urumqi-Xian	Urumqi-Zhengzhou-Fuzhou

(d) FLEET

As of 30 June, 2004, Northern Airlines Group owned and operated 55 medium to large size aircraft with an average fleet age of 8.08 years. The table below sets out details of its fleet:

NORTHERN AIRLINES GROUP'S FLEET DETAILS (AS OF 30 JUNE, 2004)

	SELF-OWNED	FINANCING LEASE	OPERATING LEASE	TOTAL
MD82	10	1	11	22
MD90	3	10	-	13
A300	-	6	-	6
A321	4	4	-	8
A319	-	-	3	3
Cessna 208B	3	-	-	3
Total	20	21	14	55

Xinjiang Airlines Group has gradually phased out the Soviet-made TU-154 and IL-86 for commercial flights. The airline has recently purchased and leased a large number of Boeing and ATR commercial aircraft. As of 30 June, 2004, the average age of the 20 aircraft owned or operated by Xinjiang Airlines Group was 5.90 years. Details of the fleet are set out in the table below:

XINJIANG AIRLINES GROUP'S FLEET DETAILS (AS OF 30 JUNE, 2004)

	SELF-OWNED	OPERATING LEASE	TOTAL
B757-200	6	3	9
B737-300	2	-	2
B737-700	-	4	4
ATR-72	5	-	5
Total	13	7	20

(e) AIRCRAFT ACQUISITION AND DISPOSAL PROGRAM

Northern Airlines entered into an aircraft sale and leaseback agreement on 4 November, 2003 with ILFC. Under the agreement, Northern Airlines agreed to sell the 22 MD82 aircraft owned, or to be owned to ILFC in four phases according to the schedule listed below:

MD82 AIRCRAFT TO BE SOLD UNDER THE AIRCRAFT SALE AND LEASEBACK AGREEMENT

PHASE	DATE	NUMBER OF MD82 TO BE SOLD
I	14 November, 2003	4
II	1 March, 2004	7
III	1 July, 2005 and 1 June, 2006	6
IV	1 June, 2006 and 15 January, 2007	5

Under the same agreement, Northern Airlines Group also agreed to lease back the above-mentioned MD82 aircraft from ILFC immediately after the sale. The average term of the lease back agreements is 15 months. In addition, Northern Airlines Group also agreed to replace each of the 22 MD82 aircraft with one new Airbus 319-100 aircraft or one new Airbus 320-200 aircraft from ILFC upon the termination of the lease back agreements. The table below sets out the replacement schedule:

AIRCRAFT REPLACEMENT SCHEDULE

	AIRCRAFT TYPE	SCHEDULED DELIVERY DATE
PHASE I	1. A319-100	May 2004 (delivered)
	2. A319-100	May 2004 (delivered)
	3. A319-100	June 2004 (delivered)
	4. A319-100	September 2004 (delivered)
PHASE II	5. A319-100	January 2005
	6. A319-100	February 2005
	7. A319-100	March 2005
	8. A319-100	April 2005
	9. A319-100	May 2005
	10. A319-100	October 2005
	11. A319-100	November 2005

	AIRCRAFT TYPE	SCHEDULED DELIVERY DATE
PHASE III	12. A319-100/A320-200	January 2006
	13. A319-100/A320-200	June 2006
	14. A319-100/A320-200	October 2006
	15. A319-100/A320-200	November 2006
	16. A319-100/A320-200	November 2006
	17. A319-100/A320-200	December 2006
PHASE IV	18. A319-100/A320-200	February 2007
	19. A319-100/A320-200	June 2007
	20. A319-100/A320-200	October 2007
	21. A319-100/A320-200	October 2007
	22. A319-100/A320-200	November 2007

In addition to the above agreement, Northern Airlines has also committed to the addition of two more A321s by the end of 2005.

(f) SALES AND MARKETING

Northern Airlines Group and Xinjiang Airlines Group have historically marketed their services under their own brands.

FREQUENT FLYER PROGRAM:

Both Northern Airlines Group and Xinjiang Airlines Group operated their respective frequent flyer programs prior to consolidation into CSAHC. Following the consolidation of Northern Airlines Group and Xinjiang Airlines Group into CSAHC, the two frequent flyer programs merged with the Company's frequent flyer program, namely, the China Southern Airlines Sky Pearl Club.

TICKET SALES CHANNELS AND RESERVATION SYSTEM:

Northern Airlines Group and Xinjiang Airlines Group conduct ticket sales through a variety of sales channels, including the airlines' own network of exclusive sales offices, websites and general sales agents. As of 30 June, 2004, Northern Airlines Group has sales offices in nine cities in China. Xinjiang Airlines Group has sales offices in seven cities in China and six outside China.

(g) SAFETY

Aircraft safety involves three major operational areas: flight operations, aircraft maintenance and ground operations. Both Northern Airlines Group and Xinjiang Airlines Group place great importance on safety in each of the three areas, and comply with applicable safety and security standards and regulations required by CAAC and other aviation industry regulators in the jurisdictions they serve.

Xinjiang Airlines Group has established a reputation for safety. To date, it maintains a record of transport flight safety since its founding and is perceived to be one of the safest airline operators in China. On 7 May, 2002, a MD82 aircraft of the Northern Airlines crashed into the ocean near Dalian, resulting in 112 passenger and crew fatalities. The aircraft was fully insured and compensated under the insurance arrangement.

(h) EMPLOYEES

The table below sets forth information regarding the employees of Northern Airlines Group and Xinjiang Airlines Group as at the end of 2003:

NORTHERN AIRLINES GROUP AND XINJIANG AIRLINES GROUP EMPLOYEE INFORMATION
(AS AT 31 DECEMBER, 2003)

	NORTHERN AIRLINES GROUP	XINJIANG AIRLINES GROUP	TOTAL
Flight personnel	1,864	726	2,590
Ground personnel	4,129	758	4,887
Sales, administration and back office personnel	4,650	1,120	5,770
Total headcount	10,643	2,604	13,247

(i) PROPERTIES

Both Northern Airlines Group and Xinjiang Airlines Group own certain buildings and real estate properties, which are used for offices, retail outlets, warehouses, aircraft maintenance workshops, ground services and airport services.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IX, a copy of the following accountants' report is available for inspection.

[KPMG LOGO]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

The Directors
China Southern Airlines Company Limited
Baiyun International Airport
Guangzhou
People's Republic of China

12 November, 2004

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to the airline and airline related operations (the "Airline Operations") of China Northern Airlines Company ("Northern Airlines") and its subsidiaries ("Northern Airlines Group"), in Sections I to VII below (the "Financial Information"), including the combined balance sheets as at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the combined statements of operations, the combined statements of changes in owner's fund and the combined statements of cash flows for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004 (the "relevant period"), and the notes thereto, for inclusion in the shareholders' circular of China Southern Airlines Company Limited ("the Company") dated 12 November, 2004 (the "Circular").

Northern Airlines was established on 19 October, 1990 in the People's Republic of China (the "PRC") and is a wholly-owned subsidiary of China Southern Air Holding Company ("CSAHC"), the ultimate holding company of the Company. It is principally engaged in the provision of domestic, and international passenger, cargo and mail airline services, with flights operating primarily from Shenyang Tao Xian International Airport which is the main base of Northern Airlines in the PRC. In addition, Northern Airlines Group also engages in other non airline related operations (the "Non Airline Operations") mainly consisting of hotel and property operations which provide social and supporting services to Northern Airlines Group.

CSAHC has undergone a reorganisation (the "Reorganisation") in connection with the proposed acquisition of the Airline Operations of Northern Airlines Group by the Company. As part of the Reorganisation, the operations and businesses and the assets and liabilities of Northern Airlines Group were segregated into two operations, namely the Airline Operations and the Non Airline Operations on 31 December, 2003.

Pursuant to the Sale and Purchase Agreement, as described more fully in the section headed "The Sale and Purchase Agreement" in the letter from the

Board contained in the Circular, the Company will acquire the Airline Operations of Northern Airlines Group together with the related assets and liabilities. However, certain assets and liabilities within the Airline Operations of Northern Airlines Group are not to be acquired by the Company.

Northern Airlines Group prepares financial statements in accordance with the relevant accounting rules and regulations in the PRC. The financial statements of the Airline Operations of Northern Airlines Group were not required to be audited by independent auditors during the relevant period.

BASIS OF PREPARATION

The Financial Information has been prepared by management of the Airline Operations of Northern Airlines Group based on the management accounts of the Airline Operations of Northern Airlines Group and on the bases set out in Section V Notes 2 and 3 to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. IFRS includes International Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND REPORTING ACCOUNTANTS

Management of the Airline Operations of Northern Airlines Group are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information of the Airline Operations of Northern Airlines Group for the relevant period in accordance with Statements of Auditing Standards and Guidelines issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the Airline Operations of Northern Airlines Group in respect of any period subsequent to 30 June, 2004.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management of the Airline Operations of Northern Airlines Group in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Airline Operations of Northern Airlines Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with

sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information for the purpose of this report, and on the basis of presentation set out in Section V Notes 2 and 3, gives a true and fair view of the combined state of affairs of the Airline Operations of Northern Airlines Group as at 31 December, 2001, 2002 and 2003 and 30 June, 2004, and the combined results and combined cash flows of the Airline Operations of Northern Airlines Group for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004 and has been properly prepared in accordance with IFRS.

(I) COMBINED STATEMENTS OF OPERATIONS

		YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIO ENDED 30 JUNE,	
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	200 RMB'
OPERATING REVENUE						
Traffic revenue		5,105,225	5,156,574	5,856,970	2,128,941	3,391
Other operating revenue		98,122	87,343	71,765	37,685	73
TOTAL OPERATING REVENUE	4	5,203,347	5,243,917	5,928,735	2,166,626	3,464
OPERATING EXPENSES						
Flight operations		2,123,890	2,194,336	2,338,641	1,119,920	1,480
Maintenance		751,542	993,629	1,039,448	541,618	412
Aircraft and traffic servicing		667,950	717,332	759,704	319,939	464
Promotion and sales		408,994	415,806	425,466	166,296	219
General and administrative		162,719	218,594	225,464	99,245	114
Depreciation and amortisation		678,435	662,040	645,506	319,023	404
Others		535,321	349,856	555,349	-	
TOTAL OPERATING EXPENSES	5	5,328,851	5,551,593	5,989,578	2,566,041	3,095
OPERATING (LOSS)/PROFIT		(125,504)	(307,676)	(60,843)	(399,415)	369
NON-OPERATING INCOME/(EXPENSES)						
Interest income		59,903	28,583	12,943	6,921	4
Interest expense	6	(724,605)	(700,752)	(627,190)	(312,183)	(195
Exchange gain/(loss), net		232,409	(151,196)	(217,539)	(1,820)	23
Gain/(loss) on disposal of property, plant and equipment	7	14,634	22,873	729	3,224	
Deficit on revaluation of						

property, plant and equipment	10	-	-	(492,369)	-	
Others, net		3,589	(42,666)	15,540	13,540	
TOTAL NON-OPERATING EXPENSES, NET		(414,070)	(843,158)	(1,307,886)	(290,318)	(167
(LOSS)/PROFIT BEFORE INCOME TAX AND MINORITY INTERESTS		(539,574)	(1,150,834)	(1,368,729)	(689,733)	201
INCOME TAX	8	(572)	(451)	117,262	-	(67
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(540,146)	(1,151,285)	(1,251,467)	(689,733)	134
MINORITY INTERESTS		38,477	10,228	17,846	4,690	
NET (LOSS)/PROFIT		(501,669)	(1,141,057)	(1,233,621)	(685,043)	135

(II) COMBINED BALANCE SHEETS

		31 DECEMBER,			30
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	R
NON-CURRENT ASSETS					
Property, plant and equipment, net	10	8,843,881	8,766,726	8,844,541	9,1
Construction in progress	11	210,191	258,505	54,446	
Lease prepayments		13,345	13,060	-	
Other investments	12	-	68,209	68,209	
Lease and equipment deposits		778,182	640,286	1,334,818	4
Deferred expenditure	13	8,329	7,266	18,001	1
Deferred tax assets	23	-	-	24,743	
TOTAL NON-CURRENT ASSETS		9,853,928	9,754,052	10,344,758	9,8
CURRENT ASSETS					
Inventories	14	625,704	693,960	534,968	5
Trade receivables	15	165,274	240,674	242,543	3
Other receivables and prepaid expenses	16	359,587	207,054	141,634	5
Cash and cash equivalents	17	1,308,902	755,218	542,046	2
TOTAL CURRENT ASSETS		2,459,467	1,896,906	1,461,191	1,7
CURRENT LIABILITIES					
Bank and other loans	18	2,488,875	4,171,785	569,547	7
Obligations under finance leases	19	976,593	1,023,660	1,070,169	1,0
Other liabilities and accrued expenses	20	1,840,530	1,679,034	1,135,292	1,4
Accounts payable	21	255,771	206,659	122,259	1
Sales in advance of carriage		49,830	98,066	5,525	
Tax payable		297	33	-	

TOTAL CURRENT LIABILITIES	5,611,896	7,179,237	2,902,792	3,3
NET CURRENT LIABILITIES	(3,152,429)	(5,282,331)	(1,441,601)	1,6
TOTAL ASSETS LESS CURRENT LIABILITIES	6,701,499	4,471,721	8,903,157	8,1

(II) COMBINED BALANCE SHEETS (CONTINUED)

		31 DECEMBER,			30 J
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	200 RMB'
NON-CURRENT LIABILITIES AND DEFERRED ITEMS					
Bank and other loans	18	2,842,763	1,293,183	2,152,067	1,811
Obligations under finance leases	19	6,475,202	6,700,765	5,897,242	5,402
Deferred credit	22	47,815	38,989	30,163	25
TOTAL NON-CURRENT LIABILITIES		9,365,780	8,032,937	8,079,472	7,239
MINORITY INTERESTS		77,309	67,081	3,033	2
		(2,741,590)	(3,628,297)	820,652	955
Representing:					
OWNER'S FUND - (DEFICIT)/SURPLUS		(2,741,590)	(3,628,297)	820,652	955

(III) COMBINED STATEMENTS OF CHANGES IN OWNER'S FUND

	Note	RMB'000

Deficit of owner's fund as at 1 January, 2001		(2,203,560)
Net loss for the year		(501,669)
Distributions to owner		(36,361)
DEFICIT OF OWNER'S FUND AS AT 31 DECEMBER, 2001		(2,741,590)
Deficit of owner's fund as at 1 January, 2002		(2,741,590)
Net loss for the year		(1,141,057)
Distributions to owner		(11,277)
Contributions from owner		265,627
DEFICIT OF OWNER'S FUND AS AT 31 DECEMBER, 2002		(3,628,297)
Deficit of owner's fund as at 1 January, 2003		(3,628,297)
Net loss for the year		(1,233,621)
Net liabilities assumed by owner in connection with the Reorganisation and Acquisition	2	4,599,709
Surplus arising from revaluation of property, plant and equipment	10	1,175,668
Elimination of net deferred tax assets	23	(117,550)
Recognition of deferred tax assets	23	24,743
SURPLUS OF OWNER'S FUND AS AT 31 DECEMBER, 2003		820,652
Surplus of owner's fund as at 1 January, 2004		820,652
Net profit for the period		135,042
SURPLUS OF OWNER'S FUND AS AT 30 JUNE, 2004		955,694

(IV) COMBINED STATEMENTS OF CASH FLOWS

		YEARS ENDED 31 DECEMBER,			SIX EN
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	20 RMB' (unau
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	29(i)	390,115	102,830	540,228	(48
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property,					

plant and equipment		163,223	223,375	122,227	
Increase in deferred expenditure		-	(183)	(27,890)	(1
Decrease in long term receivable		28,338	-	-	
Net cash proceeds from manufacturers' credit	29(ii)	414,722	547,629	-	
Payment of lease and equipment deposits		(239,160)	(241,880)	(1,904,415)	(93
Refund of lease and equipment deposits		333,811	383,563	1,214,509	1,06
Capital expenditures		(332,622)	(667,041)	(1,411,666)	(1,03
Purchase of long term investments		-	(68,209)	-	
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		368,312	177,254	(2,007,235)	(91
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from bank and other loans		2,709,000	3,363,281	9,409,078	5,80
Repayment of bank and other loans		(2,329,796)	(3,229,998)	(7,069,770)	(3,69
Repayment of principal under finance lease obligations		(994,221)	(1,221,401)	(1,006,097)	(50
Contributions from owner		-	265,627	-	
Distributions to owner		(36,361)	(11,277)	-	
Cash distributed to owner upon the Reorganisation	2	-	-	(79,376)	
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		(651,378)	(833,768)	1,253,835	1,60
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		107,049	(553,684)	(213,172)	20
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD		1,201,853	1,308,902	755,218	75
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		1,308,902	755,218	542,046	96

(V) NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACTIVITIES AND REORGANISATION

China Northern Airlines Company ("Northern Airlines") was established on 19 October, 1990 in the People's Republic of China (the "PRC") and is a wholly-owned subsidiary of China Southern Air Holding Company ("CSAHC"), the ultimate holding company of China Southern Airlines Company Limited (the "Company"). Northern Airlines together with its subsidiaries ("Northern Airlines Group") is principally engaged in the provision of domestic and international passenger, cargo and mail airline services, with flights operating primarily

from Shenyang Tao Xian International Airport which is the main base of Northern Airlines in the PRC. In addition, Northern Airlines Group also engages in other non airline related operations (the "Non Airline Operations") mainly consisting of hotel and property operations which provide social and supporting services to Northern Airlines Group.

CSAHC has undergone a reorganisation (the "Reorganisation") in connection with the proposed acquisition of the airline and airline related operations (the "Airline Operations") of Northern Airlines Group by the Company (the "Acquisition"). As part of the Reorganisation, the operations and businesses and the assets and liabilities of Northern Airlines Group were segregated into two operations, namely the Airline Operations and the Non Airline Operations on 31 December, 2003.

Pursuant to the Sale and Purchase Agreement, as described more fully in the section headed "The Sale and Purchase Agreement" in the letter from the Board contained in the Circular, the Company will acquire the Airline Operations of Northern Airlines Group together with the related assets and liabilities. However, certain assets and liabilities within the Airline Operations of Northern Airlines Group are not to be acquired by the Company.

2. BASIS OF PRESENTATION

The Financial Information for each of the years in the three-year period ended 31 December, 2003 and for the six-month period ended 30 June, 2004 presents the results of the Airline Operations of Northern Airlines Group as if the Reorganisation had taken place and the Airline Operations of Northern Airlines Group had been in operation on a stand alone basis as of the earliest date presented and had been in existence throughout the relevant period. The Financial Information for each of the years in the three-year period ended 31 December, 2003 includes the results related to those assets and liabilities that were not to be acquired by the Company, but were historically associated with the Airline Operations of Northern Airlines Group. As at 31 December, 2003, the assets and liabilities not to be acquired by the Company consisted of the following:

	RMB'000
ASSETS	
Property, plant and equipment, net	595,576
Construction in progress	298,198
Trade and other receivables	195,263
Cash and cash equivalents	79,376
Other assets	135,953
	1,304,366
LIABILITIES	
Bank and other loans	5,082,599
Other liabilities and accrued expenses	643,292
Accounts payable	110,422
Other liabilities	17,911
	5,854,224
MINORITY INTERESTS	49,851
NET LIABILITIES ASSUMED BY OWNER	(4,599,709)

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

2. BASIS OF PRESENTATION (Continued)

The assets and liabilities within the Airline Operations of Northern Airlines Group not to be acquired by the Company on 31 December, 2003 was reflected as net liabilities assumed by owner of Northern Airlines in the combined statements of owner's fund as at 31 December, 2003.

As a result of the assumption of the above net liabilities as at 31 December, 2003 by the owner, the Financial Information for the six-month period ended 30 June, 2004 presents the results of the assets and liabilities, revenues and expenses of the Airline Operations of Northern Airlines Group to be acquired by the Company.

Notwithstanding the Airline Operations of Northern Airlines Group having net current liabilities as at 30 June, 2004, the Financial Information has been prepared on a going concern basis on the assumption that the Airline Operations of Northern Airlines Group will be able to generate adequate cash flows from operations and to obtain adequate external financing to enable the Airline Operations of Northern Airlines Group to meet its debts as they fall due and to meet its committed future capital expenditure (see Note 26).

3. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and interpretations.

(b) BASIS OF PREPARATION

The Financial Information is prepared on the historical cost basis as modified by the revaluation of property, plant and equipment, as explained in Note 10. The accounting policies described below have been consistently applied during the relevant period.

(c) BASIS OF CONSOLIDATION

A subsidiary is an enterprise controlled by the Airline Operations of Northern Airlines. Control exists when the Airline Operations of Northern Airlines has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial results of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases, and the share attributable to minority interests is deducted from or added to the profit/loss after income tax. All significant intercompany balances and transactions and any unrealised gains/losses arising from intercompany transactions are eliminated on consolidation.

The particulars of the subsidiary are set out in Note 28.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

(i) Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses (see Note (f)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the period of construction. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure including the cost of repairs and maintenance, is expensed as it is incurred.

(ii) Subsequent to the revaluation carried out as at 31 December, 2003, which was based on depreciated replacement costs (Note 10), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. When an item of property, plant and equipment is revalued, any accumulated depreciation and impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset and the net asset restated to the revalued amount of the asset. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to owner's fund. However, a revaluation increase is recognised as an income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the combined statements of operations. However, a revaluation decrease is charged directly against owner's fund to the extent that the decrease does not exceed the amount previously credited to owner's fund in respect of the same asset. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

(iii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the combined statements of operations on the date of retirement or disposal.

(iv) Depreciation is calculated to write off the cost, or revalued

amount, where appropriate, of property, plant and equipment on a straight line basis over their estimated useful lives, to residual values, using the following depreciation rates:

	DEPRECIATION RATES
Buildings	2.43% - 6.17%
Owned and finance leased aircraft	4.75% - 9.70%
Other flight equipment	
- Jet engines	4.75% - 9.70%
- Others, including rotable spares	9.79% - 12.13%
Machinery and equipment	9.70% - 11.40%
Vehicles	16.17%

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) LEASED ASSETS

Flight equipment under finance leases is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at inception of the lease, and is amortised on a straight line basis over the shorter of the lease term or estimated useful life of the asset to residual value. In cases where title to the asset will be acquired by the Airline Operations of Northern Airlines Group at the end of the lease, the asset is amortised on a straight line basis over the estimated useful life of the asset to its residual value.

Amounts payable in respect of finance leases are apportioned between charges and reductions of obligations based on the interest rates implicit in the leases. Interest charges are included in the combined statements of operations to provide a constant periodic rate of charge over the lease term.

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.

Operating lease payments are charged to the combined statements of operations on a straight line basis over the terms of the related leases.

(f) IMPAIRMENT OF ASSETS

The carrying amounts of the assets, other than inventories (see Note (j)), trade and other receivables (see Note (k)) and deferred tax assets (see Note (n)), of the Airline Operations of Northern Airlines Group 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 combined statements of operations.

The Airline Operations of Northern Airlines 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.

(g) CONSTRUCTION IN PROGRESS

Construction in progress is stated in the combined balance sheets at cost less impairment losses (see Note (f)). Cost comprises direct costs of construction as well as interest expense and exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charge 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 substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(h) 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.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) INVESTMENTS

Investments, which represent unquoted available-for-sale equity securities of companies established in the PRC, are stated at cost less impairment losses (see Note (f)). 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.

(j) 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.

(k) 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.

(l) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and balance with banks and other financial institutions with an original maturity within three months. Cash equivalents are stated at cost, which approximates fair value.

(m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised at cost.

(n) INCOME TAXES

Income tax comprises current and deferred tax. Current tax is calculated on the taxable income for the relevant period by applying the applicable tax rates.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) DEFERRED CREDIT

Cash benefit received under finance lease arrangements is initially deferred and amortised over the terms of the respective leases to reduce the future finance lease charges.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Airline Operations of Northern Airlines Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) REVENUE RECOGNITION

(i) Passenger, cargo and mail transportation revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities. Revenues from airline-related business are recognised when services are rendered.

Revenue is stated net of sales tax. In addition, revenue for each of the years in the three-year period ended 31 December, 2003 and the three-month period ended 31 March, 2004 was stated net of contributions to the Civil Aviation Administration of China ("CAAC") Infrastructure Development Fund. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund form part of the flight operations expenses instead of being netted off with revenue.

(ii) Interest income is recognised as it accrues unless collectability is in doubt.

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

(r) TRAFFIC COMMISSIONS

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

(s) MAINTENANCE AND OVERHAUL COST

Routine maintenance and repairs and overhauls in respect of owned aircraft and aircraft held under finance leases are expensed in the combined statements of operations 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.

(t) TRANSLATION OF FOREIGN CURRENCIES

The functional currency of the operations of the Airline Operations of Northern Airlines Group is Renminbi. Foreign currency transactions are translated into Renminbi at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at

the balance sheet date. Exchange gains and losses, other than those capitalised as construction in progress (See Note (g)), are recognised in the combined statements of operations.

(v) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) BORROWING COSTS

Borrowing costs are expensed in the combined statements of operations in the period in which they are 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 (See Note (g)).

(v) RETIREMENT BENEFITS

Contributions to defined contribution retirement schemes made by the Airline Operations of Northern Airlines Group are charged to the combined statements of operations as and when incurred (see Note 25).

(w) RELATED PARTIES

For the purposes of the Financial Information set out below, parties are considered to be related to the Airline Operations of Northern Airlines Group if the Airline Operations of Northern Airlines 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 Airline Operations of Northern Airlines Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(x) SEGMENT REPORTING

A segment is a distinguishable component of the Airline Operations of Northern Airlines 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.

The Airline Operations of Northern Airlines Group operates principally as a single business segment for the provision of air transportation services. The analysis of operating revenue 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 overseas destinations is attributed to the international operation.

(ii) Other revenue from ticket selling, general aviation and ground services, air catering and other miscellaneous services are

attributed on the basis of where the services are performed.

(y) USE OF ESTIMATES

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at 31 December, 2001, 2002 and 2003 and 30 June, 2004 and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from those estimates.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE

Operating revenue comprises revenues from airline and airline related business and is stated net of sales tax. In addition, the operating revenue for each of the years in the three-year period ended 31 December, 2003 and the three-month period ended 31 March, 2004 was stated net of contributions to the CAAC Infrastructure Development Fund. An analysis of operating revenue is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
TRAFFIC REVENUE					
Passenger	4,773,253	4,764,754	5,446,013	1,962,218	3,186,835
Cargo and mail	331,972	391,820	410,957	166,723	204,613
	5,105,225	5,156,574	5,856,970	2,128,941	3,391,448
OTHER OPERATING REVENUE					
Commission income	25,758	24,379	9,415	7,684	1,811
Maintenance services income	5,041	22,259	29,487	7,542	5,071
Hotel operations income*	6,356	6,903	10,083	4,789	5,783
Ground services income	5,631	6,927	10,092	7,936	7,748
Aircraft lease income	40,884	7,286	-	-	49,152
Income on transfer of surplus pilot trainees	-	9,555	-	-	-
Others	14,452	10,034	12,688	9,734	3,667
	98,122	87,343	71,765	37,685	73,232
	5,203,347	5,243,917	5,928,735	2,166,626	3,464,680

* Hotel operations income arises from the operations associated with the Airline Operations of Northern Airlines Group.

Pursuant to various sales tax rules and regulations, the Airline Operations of Northern Airlines Group is required to pay sales tax to national and local tax authorities at the following rates during the relevant period:

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

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE (Continued)

The amount of sales tax incurred during the relevant period is as follows:

	YEAR ENDED 31 DECEMBER,			SIX-MONTH PERI ENDED 30 JUN	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2 RM
Sales tax netted off against operating revenue	190,885	181,528	72,544	56,755	10

In addition, the Airline Operations of Northern Airlines Group is required to pay contributions to the CAAC Infrastructure Development Fund. Prior to 1 April, 2004, contributions to the CAAC Infrastructure Development Fund were payable at 5% and 2% respectively of the domestic and international traffic revenue of the Airline Operations of Northern Airlines Group, except for the period from 1 May, 2003 to 31 March, 2004 during which the Airline Operations of Northern Airlines Group was exempted from contributions to the CAAC Infrastructure Development Fund. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund are payable based on the traffic capacity of the Airline Operations of Northern Airlines Group deployed on its routes. The contributions now form part of the flight operations expenses.

Contributions made to the CAAC Infrastructure Development Fund during the relevant period are as follows:

	YEAR ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'0
Contributions made to the CAAC Infrastructure Development Fund					
- netted off against traffic revenue	234,929	241,576	86,161	84,737	
- included in flight operations expenses	-	-	-	-	36,32
	234,929	241,576	86,161	84,737	36,32

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE (Continued)

An analysis of the operating revenue of the Airline Operations of Northern Airlines Group by geographical segment is set out as below:

	DOMESTIC	*INTERNATIONAL	TOTAL
	RMB'000	RMB'000	RMB'000
YEAR ENDED 31 DECEMBER, 2001			
Traffic revenue	4,042,914	1,062,311	5,105,225
Other revenue	98,122	-	98,122
Total operating revenue	4,141,036	1,062,311	5,203,347
YEAR ENDED 31 DECEMBER, 2002			
Traffic revenue	4,175,833	980,741	5,156,574
Other revenue	87,343	-	87,343
Total operating revenue	4,263,176	980,741	5,243,917
YEAR ENDED 31 DECEMBER, 2003			
Traffic revenue	4,819,899	1,037,071	5,856,970
Other revenue	71,765	-	71,765
Total operating revenue	4,891,664	1,037,071	5,928,735
SIX-MONTH PERIOD ENDED 30 JUNE, 2003 (UNAUDITED)			
Traffic revenue	1,728,202	400,739	2,128,941
Other revenue	37,685	-	37,685

Total operating revenue	1,765,887	400,739	2,166,626
SIX-MONTH PERIOD ENDED 30 JUNE, 2004			
Traffic revenue	2,791,181	600,267	3,391,448
Other revenue	73,232	-	73,232
Total operating revenue	2,864,413	600,267	3,464,680

* Routes are mainly between the PRC and Hong Kong, Japan, Korea and other Asian countries.

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

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

5. OPERATING EXPENSES

An analysis of the operating expenses during the relevant period is set out below:

		YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Jet fuel		1,284,917	1,235,717	1,314,282	579,259	815,900
Aircraft maintenance		682,020	921,163	972,324	472,731	373,135
Routes		1,142,689	1,201,567	1,215,101	547,775	690,186
Depreciation and amortisation						
- owned assets		355,011	362,335	358,016	176,307	231,422
- assets held under finance leases		321,992	298,174	284,805	142,084	172,411
Amortisation of deferred expenditure		1,432	1,531	2,685	632	586
Operating lease charges						
- aircraft and other flight equipment		-	-	18,587	-	41,635
- land and buildings		35,475	48,368	31,907	31,993	47,131
Staff costs						
- salaries, wages and welfare		368,382	449,825	530,600	250,682	305,524
- contributions to defined contribution retirement						

schemes		42,513	65,282	86,476	36,898	43,815
Office and administration		184,981	213,773	213,593	98,954	104,250
Impairment loss on aircraft and other flight equipment	(i)	433,378	346,654	555,349	-	-
Lump sum housing subsidy to eligible employees	(ii)	101,943	3,202	-	-	-
Others		374,118	404,002	405,853	228,726	269,362
		5,328,851	5,551,593	5,989,578	2,566,041	3,095,357

Note:

(i) In light of the gradual opening of the aviation market in the PRC and the rapid change of the market price of aircraft during the relevant period, management reviewed the recoverable amount of its aircraft based on the estimated net cashflows. As a result, impairment losses of approximately RMB433 million and RMB347 million were recorded for the years ended 31 December, 2001 and 2002 respectively to write down the carrying amount of certain aircraft. The impairment losses were recognised in the combined statements of operations.

In addition, in November 2003, the Airline Operations of Northern Airlines entered into agreements with an independent third party to dispose of its twenty-three McDonald Douglas 82 aircraft during the years 2003 to 2007 and then immediately lease back the aircraft under operating leases for a period of one to two years. Accordingly, the Airline Operations of Northern Airlines Group recorded an impairment loss for the year ended 31 December, 2003 of approximately RMB555 million, being the excess of the carrying amount of the aircraft over their recoverable amount as determined based on the agreed selling prices of the aircraft and estimated future cash flows from operating the aircraft prior to their disposals. The impairment loss was recognised in the combined statements of operations.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

5. OPERATING EXPENSES (Continued)

(ii) Pursuant to the housing policy executed by the Airline Operations of Northern Airlines Group, the Airline Operations of Northern Airlines Group made payments totalling approximately RMB102 million and RMB3 million to eligible employees in 2001 and 2002 respectively for the purpose of subsidising the employees in purchasing their houses. Management considered that the lump sum payments were one-off in nature and the Airline Operations of Northern Airlines Group has no further obligation in relation to providing lump sum housing subsidies for its employees under PRC regulations.

6. INTEREST EXPENSE

An analysis of the interest expense is set out below:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Finance charges on obligations under finance leases	436,537	395,361	346,673	178,234	154,369
Interest on bank and other loans wholly repayable within five years	310,272	316,046	202,127	121,712	10,914
Interest on other loans	20,305	26,655	94,090	20,112	34,157
	767,114	738,062	642,890	320,058	199,440
Less: Borrowing costs capitalised	(33,683)	(28,484)	(6,874)	(3,462)	-
Amortisation of deferred credit (Note 22)	(8,826)	(8,826)	(8,826)	(4,413)	(4,413)
Net interest expense	724,605	700,752	627,190	312,183	195,027

Borrowing costs have been capitalised at the following rates per annum during the relevant period:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001	2002	2003	2003 (unaudited)	2004
Capitalisation rates	6.5%	6.5%	5.9%	5.9%	-

7. GAIN/(LOSS) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

On 7 May, 2002, a McDonald Douglas 82 aircraft was crashed and had caused fatalities. Investigations with respect to the accident have been conducted by the CAAC and relevant PRC government departments. However, the results of the investigations have not yet been announced. The aircraft and passenger liabilities were fully insured. The Airline Operations of Northern Airlines Group recognised in the year ended 31 December, 2002 a gain of approximately RMB23 million, being the excess of insurance compensation received from the People's Insurance (Property) Company of China over the aggregate of the carrying amount of the aircraft and certain expenses incurred in connection with the accident.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

8. INCOME TAX

Income tax in the combined statements of operations represents:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
PRC income tax	572	451	288	-	62,870
Deferred taxation (Note 23)	-	-	(117,550)	-	4,430
	572	451	(117,262)	-	67,300

Pursuant to the income tax rules and regulations of the PRC, the Airline Operations of Northern Airlines Group is liable to PRC income tax at a rate of 33%.

In respect of the overseas airline activities, the Airline Operations of Northern Airlines 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 the relevant period.

A reconciliation of the expected tax expense with the actual tax expense is as follows:

	Note	YEARS ENDED 31 DECEMBER, 2001 RMB'000	2002 RMB'000	2003 RMB'000	SIX-MONTH PERIODS ENDED 30 JUNE, 2003 RMB'000 (unaudited)	2004 RMB'000
(Loss)/profit before income tax and minority interests		(539,574)	(1,150,834)	(1,368,729)	(689,733)	201,681
Expected PRC income tax (credit)/expense at 33%		(178,059)	(379,776)	(451,681)	(227,612)	66,555
Adjustments:						
- Non-deductible expenses	(i)	79,105	87,000	7,232	2,421	745
- Deferred tax assets not recognised	(ii)	226,617	194,027	327,187	225,191	-
- Provision for doubtful accounts made on inter-company balances	(iii)	(101,704)	(3,300)	-	-	-
- Differences in income and expense recognition for certain inter-company transactions	(iv)	(25,387)	102,500	-	-	-
		572	451	(117,262)	-	67,300

Note:

(i) Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for taxation purpose and non-deductible one-off housing subsidies paid to eligible employees.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

8. INCOME TAX (Continued)

(ii) Amounts mainly represent deferred tax assets in respect of taxable losses, provision for doubtful accounts, and repair charges capitalised which are not recognised. Based on projections for future taxable income, management did not forecast that sufficient taxable profits would arise to utilise these deferred tax assets.

(iii) Amounts represent tax effects of provision for doubtful accounts made on inter-company balances, of which the corresponding deferred tax asset was not recognised as described in (ii) above. Such provision for doubtful accounts is eliminated on consolidation.

(iv) Amounts represent tax effects of differences in the recognition of income and expenses in respect of certain inter-company transactions. Such differences in recognition of income and expenses are eliminated on consolidation.

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.

During the relevant period, PRC withholding tax payable in respect of the leases executed on or after 1 September, 1999, which has been included as part of the operating lease charges, are as follows:

	YEARS ENDED 31 DECEMBER,			SIX MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
PRC withholding tax	-	-	214	-	2,295

9. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(i) DIRECTORS' EMOLUMENTS

No board of directors or similar corporate governance body was established by the Airline Operations of Northern Airlines during the relevant period. Accordingly, no directors' emoluments were paid during the relevant period.

(ii) INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of emoluments paid to the five highest paid individuals are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Salaries, allowances and benefits in kind	569	582	1,234	268	340
Retirement benefits	143	146	311	156	81
	712	728	1,545	424	421

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

(ii) INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument ranges is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH ENDED 3
	2001	2002	2003	2003 (unaudited)
RMB Nil - RMB1,060,000 (HK$1,000,000 equivalent)	5	5	5	5

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the relevant period.

10. PROPERTY, PLANT AND EQUIPMENT, NET

	BUILDINGS RMB'000	AIRCRAFT OWNED RMB'000	AIRCRAFT HELD UNDER FINANCE LEASES RMB'000	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000
COST:					
At 1 January, 2001	931,775	2,606,648	8,238,950	1,580,127	727,929
Reclassification on exercise of purchase options	-	414,712	(414,712)	-	-
Additions	7,311	-	744,089	164,153	71,795
Transferred from construction in progress	107,590	-	17,511	-	5,364
Disposals	(50,884)	-	-	(150,376)	(13,356)
At 31 December, 2001	995,792	3,021,360	8,585,838	1,593,904	791,732
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:					
At 1 January, 2001	98,237	956,558	2,896,764	742,195	406,637
Reclassification on exercise of purchase options	-	232,187	(232,187)	-	-
Depreciation for the year	25,598	114,287	321,992	142,325	72,801
Impairment loss for the year	-	-	433,378	-	-
Written back on disposal	(4,551)	-	-	(51,263)	(10,213)
At 31 December, 2001	119,284	1,303,032	3,419,947	833,257	469,225
NET BOOK VALUE:					
At 31 December, 2001	876,508	1,718,328	5,165,891	760,647	322,507

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

	BUILDINGS RMB'000	AIRCRAFT OWNED RMB'000	AIRCRAFT HELD UNDER FINANCE LEASES RMB'000	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000
COST:					
At 1 January, 2002	995,792	3,021,360	8,585,838	1,593,904	791,732

Reclassification on exercise of purchase options	-	134,394	(134,394)	-	-
Additions	9,932	1,805	783,098	131,758	69,778
Transferred from construction in progress	106,948	-	23,930	-	3,261
Disposals	(132,730)	(26,628)	(130,233)	(14,811)	(32,795)
At 31 December, 2002	979,942	3,130,931	9,128,239	1,710,851	831,976
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:					
At 1 January, 2002	119,284	1,303,032	3,419,947	833,257	469,225
Reclassification on exercise of purchase options	-	63,837	(63,837)	-	-
Depreciation for the year	28,106	131,487	298,174	141,686	61,056
Impairment loss for the year	-	76,075	270,579	-	-
Written back on disposal	(13,203)	(26,002)	(69,078)	(13,944)	(14,468)
At 31 December, 2002	134,187	1,548,429	3,855,785	960,999	515,813
NET BOOK VALUE:					
At 31 December, 2002	845,755	1,582,502	5,272,454	749,852	316,163

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

		AIRCRAFT		OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES	MACHINERY, EQUIPMENT AND VEHICLES
	BUILDINGS RMB'000	OWNED RMB'000	HELD UNDER FINANCE LEASES RMB'000	RMB'000	RMB'000
COST OR VALUATION:					
At 1 January, 2003	979,942	3,130,931	9,128,239	1,710,851	831,976
Transferred to owner upon the Reorganisation	(595,923)	(188,265)	-	(45,212)	(148,678)
Reclassification on exercise of purchase options	-	316,734	(316,734)	-	-
Additions	19,777	842,368	-	378,451	31,492
Transferred from construction in progress	21,454	27,289	-	-	3,570
Disposals	(9,930)	(407,619)	-	-	(66,702)
Revaluation	(59,821)	(1,720,993)	(3,902,701)	(768,623)	(347,332)
At 31 December, 2003	355,499	2,000,445	4,908,804	1,275,467	304,326

REPRESENTING:					
Valuation - 2003	355,499	2,000,445	4,908,804	1,275,467	304,326
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:					
At 1 January, 2003	134,187	1,548,429	3,855,785	960,999	515,813
Transferred to owner upon the Reorganisation	(75,631)	(138,686)	-	(38,964)	(129,221)
Reclassification on exercise of purchase options	-	242,435	(242,435)	-	-
Depreciation for the year	23,170	143,777	284,805	128,743	62,326
Impairment loss for the year	-	417,598	137,751	-	-
Written back on disposal	(7,313)	(312,825)	-	-	(27,974)
Elimination on revaluation	(74,413)	(1,900,728)	(4,035,906)	(1,050,778)	(420,944)
At 31 December, 2003	-	-	-	-	-
NET BOOK VALUE:					
At 31 December, 2003	355,499	2,000,445	4,908,804	1,275,467	304,326

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

		AIRCRAFT		OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES	MACHINERY, EQUIPMENT AND VEHICLES
	BUILDINGS RMB'000	OWNED RMB'000	HELD UNDER FINANCE LEASES RMB'000	RMB'000	RMB'000
COST OR VALUATION:					
At 1 January, 2004	355,499	2,000,445	4,908,804	1,275,467	304,326
Reclassification on exercise of purchase options	-	29,299	(29,299)	-	-
Additions	4,678	824,946	-	68,570	19,304
Transferred from construction in progress	-	32,084	-	-	9,295
Disposals	-	(265,840)	-	-	(1,799)
At 30 June, 2004	360,177	2,620,934	4,879,505	1,344,037	331,126
REPRESENTING:					
Cost	4,678	857,030	-	68,570	28,599

Valuation - 2003	355,499	1,763,904	4,879,505	1,275,467	302,527	
	360,177	2,620,934	4,879,505	1,344,037	331,126	
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:						
At 1 January, 2004	-	-	-	-	-	
Reclassification on exercise of purchase options	-	3,834	(3,834)	-	-	
Depreciation for the period	8,155	97,982	172,411	82,383	42,902	
Written back on disposal	-	(7,737)	-	-	(1,584)	
At 30 June, 2004	8,155	94,079	168,577	82,383	41,318	
NET BOOK VALUE:						
At 30 June, 2004	352,022	2,526,855	4,710,928	1,261,654	289,808	

All of the buildings of the Airline Operations of Northern Airlines Group are located in the PRC.

As required by the relevant PRC rules and regulations with respect to the Acquisition, the property, plant and equipment of the Airline Operations of Northern Airlines Group as at 31 December, 2003 were revalued for each asset class by China Enterprise Appraisal Co., Ltd. (the "PRC Valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment of the Airline Operations of Northern Airlines Group as at 31 December, 2003 has been determined at approximately RMB8,845 million. Such amount will serve as the tax base for such assets for future years (see Note 23). Surplus arising from revaluation of certain property, plant and equipment totalling approximately RMB1,176 million has been credited to the owner's fund while deficit arising from the revaluation of certain property, plant and equipment totalling approximately RMB492 million has been charged as an expense for the year ended 31 December, 2003. The net surplus on the revaluation of the property, plant and equipment of approximately RMB684 million has been incorporated in the combined balance sheet of the Airline Operations of Northern Airlines Group as at 31 December, 2003.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

The properties of the Airline Operations of Northern Airlines Group were also valued separately by Chesterton, independent qualified valuers in Hong Kong, as at 31 December, 2003. The value arrived at by Chesterton was approximately the same as that arrived at by the PRC valuers.

The historical carrying amounts of the property, plant and equipment of the Airline Operations of Northern Airlines Group as at 31 December, 2003 and the revalued amounts of these assets were as follows:

	HISTORICAL CARRYING AMOUNT	REVALUATION SURPLUS	REVALUATION DEFICIT	REVALUED AMOUNT
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	340,907	47,689	33,097	355,499
Aircraft				
- owned	1,820,710	247,993	68,258	2,000,445
- held under finance leases	4,775,599	211,730	78,525	4,908,804
Other flight equipment, including rotable spares	993,312	557,299	275,144	1,275,467
Machinery, equipment and vehicles	230,714	110,957	37,345	304,326
	8,161,242	1,175,668	492,369	8,844,541

The effect of the above revaluation is to increase annual depreciation charges by approximately RMB154 million for year beginning 1 January, 2004. Had the property, plant and equipment been stated at cost less accumulated depreciation and impairment losses, the net book value of the property, plant and equipment of the Airline Operations of Northern Airlines Group as at 30 June, 2004 would have been approximately RMB8,622 million, made up as follows:

	30 JUNE, 2004
	RMB'000
Buildings	338,774
Aircraft	
- owned	2,453,130
- held under finance leases	4,600,945
Other flight equipment, including rotable spares	995,468
Machinery, equipment and vehicles	233,469
	8,621,786

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, certain aircraft of the Airline Operations of Northern Airlines Group with an aggregate carrying value of approximately RMB6,044 million, RMB6,396 million, RMB6,475 million and RMB6,941 million respectively, were mortgaged under certain loan and lease agreements (See Notes 18 and 19).

10. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

During the relevant period, the Airline Operations of Northern Airlines Group entered into certain lease agreements to lease several of its aircraft to other airlines. The terms of such leases generally range from one month to five years. As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the cost or valuation and accumulated depreciation and impairment losses of the relevant aircraft were set out below:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Cost or valuation	-	-	-	148,869
Accumulated depreciation and impairment losses	-	-	-	(21,156)
	-	-	-	127,713

Total future minimum lease payments under non-cancellable operating leases of the Airline Operations of Northern Airlines Group are receivable as follows:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Within one year	-	-	-	51,395
After one year but within five years	-	-	-	88,405
	-	-	-	139,800

11. CONSTRUCTION IN PROGRESS

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIOD ENDED 30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Balance at 1 January,	217,610	210,191	258,505	54,446
Additions	123,046	182,453	146,452	25,863
Transferred to property, plant and equipment	(130,465)	(134,139)	(52,313)	(41,379)
Transferred to owner upon the Reorganisation	-	-	(298,198)	-

Balance at 31 December/30 June,	210,191	258,505	54,446	38,930

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

12. OTHER INVESTMENTS

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Unlisted equity investment, at cost	-	68,209	68,209	68,209

Unlisted equity investment of the Airline Operations of Northern Airlines Group represents an interest in a PRC enterprise which is mainly engaged in the provision of general aviation services.

13. DEFERRED EXPENDITURE

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Losses deferred in connection with aircraft sale and leaseback arrangements (Note)	-	-	14,641	134,677
Others	10,497	10,725	9,869	9,780
	10,497	10,725	24,510	144,457
Less: Accumulated amortisation	(2,168)	(3,459)	(6,509)	(22,364)
	8,329	7,266	18,001	122,093

Note: Pursuant to certain sale and leaseback arrangements, the Airline Operations of Northern Airlines Group disposed of its four McDonald Douglas 82 aircraft and seven McDonald Douglas 82 aircraft during the year ended 31 December, 2003 and the six-month period ended 30 June, 2004 respectively to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of one to two years. The excess of the aircraft's fair value over the sales proceeds on the date of

disposal were initially deferred and amortised over the period the aircraft were expected to be used to increase the future operating lease charges.

14. INVENTORIES

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Expendable spare parts and maintenance materials	588,136	661,456	517,350	534,870
Other supplies	44,224	41,665	23,689	18,046
	632,360	703,121	541,039	552,916
Less: Provision for obsolescence	(6,656)	(9,161)	(6,071)	(8,823)
	625,704	693,960	534,968	544,093

No significant amount of inventories was carried at net realisable value as at 31 December, 2001, 2002 and 2003 and 30 June, 2004.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

15. TRADE RECEIVABLES

Credit terms granted by the Airline Operations of Northern Airlines Group to sales agents and other customers generally range from one to three months. An aging analysis of trade receivables, net of provision for doubtful accounts, is set out below:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Within 1 month	147,399	183,834	219,014	359,003
More than 1 month but less than 3 months	14,257	37,623	18,938	38,375
More than 3 months but less than 12 months	3,618	19,217	4,591	780
	165,274	240,674	242,543	398,158

As at 31 December, 2003 and 30 June, 2004, the Airline Operations of Northern Airlines Group had amount due from a fellow subsidiary of approximately RMB186 million and RMB345 million respectively which was included in trade receivables.

16. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses comprise:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Prepaid expenses and deposits	25,152	23,502	19,581	36,486
Amount due from CSAHC	–	–	15,284	426,374
Amounts due from related companies	29,463	2,177	4,408	5,435
Loans receivable	88,928	60,269	–	–
Manufacturers' credit receivables	77,535	105,215	60,257	78,238
Amount due from insurance company	4,490	38,248	26,111	25,905
Property, plant and equipment and spare part sale receivable	148,503	–	–	–
Other receivables	77,103	68,150	41,977	28,337
	451,174	297,561	167,618	600,775
Less: Provision for doubtful accounts	(91,587)	(90,507)	(25,984)	(34,665)
	359,587	207,054	141,634	566,110

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

17. CASH AND CASH EQUIVALENTS

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Cash at bank and in hand	1,049,413	589,740	542,046	234,733
Time deposits with maturity within three months	259,489	165,478	–	–
	1,308,902	755,218	542,046	234,733

18. BANK AND OTHER LOANS

The bank and other loans of the Airline Operations of Northern Airlines Group under current liabilities comprise:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Short term bank loans	1,377,200	1,226,373	194,502	120,011
Short term loans from CSAHC	-	1,750,000	-	309,490
Current portion of long term bank loans	1,111,675	1,195,412	375,045	337,756
	2,488,875	4,171,785	569,547	767,257

The weighted average interest rate on short term bank loans of the Airline Operations of Northern Airlines Group was 6.1%, 5.1%, 1.7% and 3.1% as at 31 December, 2001, 2002 and 2003 and 30 June, 2004 respectively.

The short term loans from CSAHC, which bear interest rates ranging from 1.9% to 6.0% per annum, were unsecured.

In addition, in 2003, CSAHC made short term advances amounting to approximately RMB500 million to the Airline Operations of Northern Airlines Group. These advances are unsecured, interest free and repayable on demand. These advances were fully repaid during 2003.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

18. BANK AND OTHER LOANS (Continued)

The long term bank loans of the Airline Operations of Northern Airlines Group comprise:

BANK LOANS	INTEREST RATES AND FINAL MATURITY	31 DECEMBER, 2001 RMB'000	2002 RMB'000	2003 RMB'000
Renminbi denominated	Floating interest rates as specified by the People's Bank of China ranging from 5.76% to 7.15% per annum as at 30 June, 2004, with maturities through 2014	3,223,228	1,890,657	643,058

	Fixed interest rates ranging from 5.94% to 6.53% per annum, with maturities through 2003	128,400	109,800	-	
US dollars denominated	Floating interest rate of 6 months LIBOR+0.3% per annum, being 1.72% per annum as at 30 June, 2004, with maturities through 2013	-	-	1,613,986	1
	Fixed interest rates ranging from 6.13% to 8.18% per annum, with maturities through 2009	602,810	488,138	270,068	
		3,954,438	2,488,595	2,527,112	2
	Less: loans due within one year classified as current liabilities	1,111,675	1,195,412	375,045	
		2,842,763	1,293,183	2,152,067	1

The aggregate maturities of the bank and other loans of the Airline Operations of Northern Airlines Group are analysed as follows:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
BANK AND OTHER LOANS DUE:				
Within one year	2,488,875	4,171,785	569,547	767,257
In the second year	1,597,315	449,515	420,045	261,209
In the third to fifth year, inclusive	1,161,894	616,064	777,993	709,652
After the fifth year	83,554	227,604	954,029	840,510
	5,331,638	5,464,968	2,721,614	2,578,628
Portion classified as current liabilities	(2,488,875)	(4,171,785)	(569,547)	(767,257)
	2,842,763	1,293,183	2,152,067	1,811,371

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

18. BANK AND OTHER LOANS (Continued)

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, bank loans of the Airline Operations of Northern Airlines Group totalling approximately RMB1,074 million, RMB1,259 million, RMB2,527 million and RMB2,149 million respectively were secured by mortgages over certain aircraft (See Note 10).

In connection with the Reorganisation, bank loans totalling approximately RMB5,083 million as at 31 December, 2003 were assumed by the owner of Northern Airlines.

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, certain bank loans of the Airline Operations of Northern Airlines Group were guaranteed by the following parties:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
CAAC	550,350	399,800	-
CSAHC	575,000	695,000	1,808,488
China Aviation Supplies Import and Export Corporation	2,090,000	972,773	-
Bank of China	341,907	262,251	81,496
The Industrial and Commercial Bank of China	260,903	225,887	188,572
	3,818,160	2,555,711	2,078,556

19. OBLIGATIONS UNDER FINANCE LEASES

The Airline Operations of Northern Airlines Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring through 2012, which are repayable as follows:

	31 DECEMBER, 2001			31 DECEMBER, 2	
	PAYMENTS RMB'000	INTEREST RMB'000	OBLIGATIONS RMB'000	PAYMENTS RMB'000	INTEREST RMB'000
BALANCE DUE:					
Within one year	1,369,844	393,251	976,593	1,354,214	330,554
In the second year	1,286,131	321,344	964,787	1,335,380	274,436
In the third to fifth year, inclusive	4,084,664	663,123	3,421,541	4,400,721	551,095
After the fifth year	2,370,131	281,257	2,088,874	1,958,013	167,818
	9,110,770	1,658,975	7,451,795	9,048,328	1,323,903
Less: Balance due within one year classified as current liabilities			(976,593)		
			6,475,202		

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

19. OBLIGATIONS UNDER FINANCE LEASES (Continued)

	31 DECEMBER, 2003			30 JUNE,	
	PAYMENTS RMB'000	INTEREST RMB'000	OBLIGATIONS RMB'000	PAYMENTS RMB'000	INTER RMB'0
BALANCE DUE:					
Within one year	1,335,091	264,922	1,070,169	1,300,241	237
In the second year	1,210,381	210,740	999,641	1,213,393	180
In the third to fifth year, inclusive	4,266,482	390,900	3,875,582	3,858,697	304
After the fifth year	1,078,942	56,923	1,022,019	854,606	39
	7,890,896	923,485	6,967,411	7,226,937	761
Less: Balance due within one year classified as current liabilities			(1,070,169)		
			5,897,242		

The obligations under finance leases by currency are analysed as follows:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	20 RMB
US dollars denominated	5,748,520	5,862,948	4,84
Japanese yen denominated	1,703,275	1,861,477	2,12
	7,451,795	7,724,425	6,96

Under the terms of the leases, the Airline Operations of Northern Airlines 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.

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, certain aircraft with carrying amount of approximately RMB5,166 million, RMB5,272 million, RMB4,909 million and RMB4,711 million respectively were mortgaged to secure facilities with financial institutions granted to lessors with outstanding obligations totalling approximately RMB7,452 million, RMB7,724 million, RMB6,967 million and RMB6,465 million respectively. In addition, the relevant insurance policies in respect of the aircraft held under finance leases are assigned to the lessors.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

20. OTHER LIABILITIES AND ACCRUED EXPENSES

Other liabilities and accrued expenses represent:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Accrued expenses	841,095	1,058,025	885,134	1,146,534
CAAC Infrastructure Development Fund payable	512,137	288,722	54,994	38,745
Business and other taxes payable	33,053	26,518	3,457	21,347
Salary and staff welfare payable	26,178	36,535	26,424	31,187
Property, plant and equipment purchase payable	183,382	8,670	8,710	-
Other liabilities	244,685	260,564	156,573	165,550
	1,840,530	1,679,034	1,135,292	1,403,363

21. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Due within 1 month or on demand	56,838	45,924	27,169	31,117
Due after 1 month but within 3 months	85,257	68,887	40,753	46,675
Due after 3 months but within 6 months	113,676	91,848	54,337	62,234
	255,771	206,659	122,259	140,026

22. DEFERRED CREDIT

Deferred credit comprises:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Balance at 1 January,	56,641	47,815	38,989	38,989	30,163
Amortisation for the year/period (Note 6)	(8,826)	(8,826)	(8,826)	(4,413)	(4,413)
Balance at 31 December/30 June,	47,815	38,989	30,163	34,576	25,750

The Airline Operations of Northern Airlines Group entered into several aircraft finance lease arrangements with certain independent third parties, under which the Airline Operations of Northern Airlines Group received cash benefits of approximately Rmb88 million upon the inception of the respective leases. The benefits are initially deferred and amortised over the terms of the respective leases to reduce the future finance lease charges.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23. DEFERRED TAXATION

Movements in deferred tax assets are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Balance at 1 January,	-	-	-	-	24,74
Transferred from/(to) combined statements of operations (Note 8)	-	-	117,550	-	(4,43
Recognised in owner's fund	-	-	24,743	-	
Net deferred tax assets eliminated against owner's fund	-	-	(117,550)	-	
Balance at 31 December/30 June,	-	-	24,743	-	20,31

The deferred taxation assets were made up of the following taxation

effect:

	Note	31 DECEMBER, 2001 RMB'000	2002 RMB'000	2003 RMB'000	30 JUNE, 2004 RMB'000
DEFERRED TAX ASSETS:					
Impairment losses on property, plant and equipment	(ii)	473,140	587,536	-	
Provision for doubtful accounts		74,544	-	-	
Repair charges	(ii)	438,979	490,550	-	
Inventories	(iii)	-	-	24,743	20,31
TOTAL DEFERRED TAX ASSETS		986,663	1,078,086	24,743	20,31
DEFERRED TAX LIABILITIES:					
Tax depreciation in excess of accounting depreciation	(ii)	(986,663)	(1,078,086)	-	
TOTAL DEFERRED TAX LIABILITIES		(986,663)	(1,078,086)	-	
		-	-	24,743	20,31

Note:

(i) The balance of tax losses as at 31 December, 2003 will no longer be available to be carried forward to off-set future taxable income of the Airline Operations of Northern Airlines Group upon completion of the Reorganisation and Acquisition. In this connection, deferred tax asset arising from tax losses amounting to approximately RMB118 million as at 31 December, 2003 was eliminated against owner's fund.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23. DEFERRED TAXATION (Continued)

(ii) As described in Note 10, in connection with the Reorganisation and Acquisition, property, plant and equipment of the Airline Operations of Northern Airlines Group were revalued as at 31 December, 2003. Such revalued amount will serve as the tax base for these assets for future years. As a result, the temporary differences that gave rise to the deferred tax assets and liabilities relating to the items above as at 31 December, 2003 were eliminated against owner's fund.

An analysis of the deferred tax assets/(liabilities) which have been eliminated against owner's fund is set out below:

	RMB'000
DEFERRED TAX ASSETS:	
Impairment losses on property, plant and equipment	762,115
Repair charges	410,739
TOTAL DEFERRED TAX ASSETS	1,172,854
DEFERRED TAX LIABILITIES:	
Tax depreciation in excess of accounting depreciation	(1,172,854)
TOTAL DEFERRED TAX LIABILITIES	(1,172,854)
	-

(iii) In connection with the Reorganisation and Acquisition, inventories of the Airline Operations of Northern Airlines Group, which as at 31 December, 2003 had a carrying amount of approximately RMB534 million, were revalued as required by the relevant PRC rules and regulations. The revalued amount of inventories has been determined at approximately RMB609 million. Such amount will serve as the tax base for future years. The inventories were not revalued for financial reporting purposes and accordingly, a deferred tax asset of approximately RMB25 million was created with a corresponding increase in owner's fund. Based upon projections of future taxable income, management believes it is more likely than not the Airline Operations of Northern Airlines Group will realise the benefits of the deferred tax asset.

An analysis of the amount of deductible temporary differences for which no deferred tax asset is recognised in the combined balance sheets is set out below:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Tax losses	558,506	840,382	-	-
Provision for doubtful accounts	548,361	795,321	-	-
Repair charges	64,221	123,345	-	-
	1,171,088	1,759,048	-	-

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

24. RELATED PARTY TRANSACTIONS

During the period from 1 January, 2001 to 31 December, 2002, the Airline Operations of Northern Airlines Group was under the direct control of the CAAC and therefore, the transactions conducted with the CAAC and its affiliates during the period from 1 January, 2001 to 31 December, 2002 are presented as related party transactions. However, such control was shifted to CSAHC during late 2002. Consequently, transactions with the CAAC and its affiliates are no longer presented as related party transactions from 1 January, 2003 onward.

The principal recurring and non-recurring related party transactions between the Airline Operations of Northern Airlines Group and the CAAC and its affiliates, and CSAHC and its affiliates during the relevant period are summarised as follows:

		YEARS ENDED 31 DECEMBER,		
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000
EXPENSES				
PAID TO CAAC AND ITS AFFILIATES				
Handling charges	(i)	2,377	2,428	-
Jet fuel supplies	(ii)	1,130,283	1,142,378	-
Aircraft insurance	(iii)	36,136	72,907	-
Ticket reservation service charges	(iv)	62,635	67,133	-
Passenger departure and cargo handling charges	(v)	18,526	19,140	-
Aircraft and traffic service charges	(vi)	456,482	541,488	-
Commission expense	(vii)	22,751	17,726	-
PAID TO CSAHC AND ITS AFFILIATES				
Interest expense	(viii)	-	8,155	-
Rentals for land and buildings	(ix)	-	-	-
Air catering expenses	(x)	-	-	-
INCOME				
RECEIVED FROM CAAC AND ITS AFFILIATES				
Maintenance service income	(xi)	23,740	22,259	-
Ground service income	(xii)	7,428	6,927	-
Aircraft lease income	(xiii)	-	7,286	-
Commission income	(xiv)	25,279	19,695	-
RECEIVED FROM CSAHC AND ITS AFFILIATES				
Aircraft lease income	(xiii)	-	-	-

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

24. RELATED PARTY TRANSACTIONS (Continued)

Note:

(i) Handling charges represent fees payable to China Aviation Supplies Import and Export Corporation, a corporation controlled by the CAAC, in connection with the procurement of aircraft and flight equipment on behalf of the Airline Operations of Northern Airlines Group. Handling charges are calculated based on a fixed percentage of the purchase value and other charges.

(ii) Jet fuel supplies represent purchases of jet fuel at the then prevailing state controlled prices from China Aviation Oil Supply Company, Lan Tian Oil Supply Company and certain other suppliers, which are controlled by the CAAC.

(iii) Aircraft insurance represents insurance premiums payable to the CAAC which arranges aviation insurance covering hull, war and passenger liability risk on behalf of the PRC airlines with the People's Insurance (Property) Company of China. Insurance premiums are allocated to individual PRC airlines by the CAAC based on the value of the airlines' aircraft and after taking into account the claims history of the airlines.

(iv) Ticket reservation service charges represent fees payable to the CAAC in respect of computer reservation services rendered by the CAAC at charge rates determined based on the utilisation of the computer reservation system.

(v) Passenger departure and cargo handling charges are payable to the CAAC for use of the computerised passenger departure and cargo handling systems installed at certain PRC airports. The charges are levied based on the utilisation of these systems.

(vi) Aircraft and traffic service charges represent landing and take-off fees payable to various PRC airports in respect of landing and take-off slots allocated to the Airline Operations of Northern Airlines Group and other ancillary services provided. Fees are payable by the Airline Operations of Northern Airlines Group based on the scale rates published by the CAAC.

(vii) Commission expense represents commissions payable to CAAC's sales offices and other PRC airlines 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 9% on the ticket value as stipulated by the CAAC.

(viii) Interest expense represents the interest incurred on certain unsecured loans from CSAHC. The applicable interest rates are in accordance with the rates published by the People's Bank of China (see Note 18).

(ix) Rentals were paid to CSAHC under lease arrangements for certain land and buildings in the PRC. The rentals are determined based on prevailing market rates.

(x) Air catering expenses represent purchases of in-flight meals and related services from certain affiliates of CSAHC. Prices charged

by these suppliers to the Airline Operations of Northern Airlines Group are similar to those charged to other PRC airlines.

(xi) Maintenance service income represents the fees received in connection with the provision of aircraft maintenance services to other airlines controlled by the CAAC.

(xii) Ground service income represents the fees receivable from certain airlines controlled by the CAAC in respect of ground services provided by the Airline Operations of Northern Airlines Group in certain PRC airports.

(xiii) Aircraft lease income for the years in the two-year period ended 31 December, 2002 represent rentals receivable in respect of short term leasing of aircraft to certain PRC airlines controlled by the CAAC.

Aircraft lease income for the six-month period ended 30 June, 2004 represents rentals receivable in respect of short term leasing of aircraft to a CSAHC's affiliate. The rentals are determined based on prevailing market rates.

(xiv) Commission income represents commission receivable from certain PRC airlines controlled by the CAAC in connection with air tickets sold by the Airline Operations of Northern Airlines Group for which the carriage was provided by such airlines. Commission is calculated based on a fixed rate ranging from 3% to 9% on the ticket value as stipulated by the CAAC.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

24. RELATED PARTY TRANSACTIONS (Continued)

Details of loans borrowed from and/or guaranteed by CSAHC and loans guaranteed by the CAAC and its affiliates are disclosed in Note 18.

Management of the Airline Operations of Northern Airlines Group is 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 relevant government regulations governing such transactions.

25. RETIREMENT BENEFITS

Employees of the Airline Operations of Northern Airlines Group participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Airline Operations of Northern Airlines Group are located. The Airline Operations of Northern Airlines Group is required to contribute to these schemes at rates ranging from 14% to 20% 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 Airline Operations of Northern Airlines Group are assumed by these schemes. Contributions to the retirement schemes made by the Airline Operations of Northern Airlines Group during the relevant period are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Amounts of contributions	42,513	65,282	86,476	36,898	43,815

26. COMMITMENTS AND CONTINGENCIES

(i) CAPITAL COMMITMENTS

The Airline Operations of Northern Airlines Group had capital commitments as follows:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Commitments in respect of aircraft and related equipment:				
- authorised and contracted for	3,608,101	2,618,215	917,874	860,435
Other commitments:				
- authorised and contracted for	2,606	2,109	7,355	2,279
- authorised but not contracted for	29,971	40,076	38,472	46,627
	32,577	42,185	45,827	48,906
	3,640,678	2,660,400	963,701	909,341

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

26. COMMITMENTS AND CONTINGENCIES (Continued)

(i) CAPITAL COMMITMENTS (Continued)

As at 30 June, 2004, the Airline Operations of Northern Airlines Group had on order two Airbus 321-200 aircraft and certain flight equipment, scheduled for deliveries in the second half of 2004 and in 2005. Deposits of approximately RMB185 million have been made towards the

purchase of these aircraft and related equipment. As at 30 June, 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:

	RMB'000
Payments due	
- within one year	112,025
- in the second year	748,410
	860,435

(ii) OPERATING LEASE COMMITMENTS

The total future minimum lease payments payable by the Airline Operations of Northern Airlines Group under non-cancellable operating leases in respect of aircraft and flight equipment are payable as follows:

	31 DECEMBER,			30 JUNE,
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Payments due				
- within one year	-	-	92,130	166,408
- in the second to fifth year, inclusive	-	-	1,614,070	1,780,561
- after the fifth year	-	-	3,765,609	3,497,896
	-	-	5,471,809	5,444,865

Leases for aircraft and flight equipment are generally run for an initial period of between one to ten years. The rental payments for aircraft and flight equipment are fixed during the lease period. None of the leases includes contingent rentals.

(iii) CONTINGENT LIABILITIES

Pursuant to a purchase agreement dated 6 April, 2000, the Airline Operations of Northern Airlines Group placed a procurement order for certain aircraft with a PRC manufacturer, at a total purchase price of approximately RMB180 million, with deliveries in 2002. In 2002, prior to the deliveries of aircraft, the Airline Operations of Northern Airlines Group decided to terminate the procurement order due to a change of its air fleet requirements. Currently, the Airline Operations of Northern Airlines Group has been working with the manufacturer in getting an appropriate new buyer for the aircraft.

In this connection, a provision for termination charge of approximately RMB17 million was recognised in the combined statement of operations for the year ended 31 December, 2002. The provision made was recorded under sub-item "Others, net" under Non-operating income/(expenses) in the combined statement of operations. Such provision

has been arrived at by management of the Airline Operations of Northern Airlines Group after taking into account all relevant information available to the Airline Operations of Northern Airlines Group, including the estimated differences between the purchase prices committed by the Airline Operations of Northern Airlines Group and the purchase prices that may be probably agreed by the new buyer.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

26. COMMITMENTS AND CONTINGENCIES (Continued)

(iii) CONTINGENT LIABILITIES (Continued)

As part of the Acquisition, CSAHC has agreed to indemnify the Company against any losses caused by the termination of the aircraft procurement order in excess of approximately RMB17 million.

27. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

LIQUIDITY RISK

The liquidity of the Airline Operations of Northern Airlines Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due and to renew/refinance these debt obligations where necessary and, on its ability to obtain adequate external loan finance to meet its committed future capital expenditures. With the support of certain PRC banks and CSAHC, the Airline Operations of Northern Airlines Group was able to renew its short term debts and refinance part of its long term debts during the relevant period. With regards to the twelve-month period ending 30 June, 2005, the Airline Operations of Northern Airlines Group has planned to seek the renewals of short term debts amounting to RMB430 million. The Airline Operations of Northern Airlines Group has planned to finance its committed capital expenditures and other financing requirements through available internal funds. Based on the recent negotiations with the principal bankers of the Airline Operations of Northern Airlines Group, management believes that the planned loan renewals will be available to the Airline Operations of Northern Airlines Group.

Management has carried out a detailed review of the cash flow forecast of the Airline Operations of Northern Airlines Group for the twelve-month period ending 30 June, 2005. Based on the results of such review, management has determined that adequate liquidity exists to finance the working capital, debt repayment obligations and capital expenditure requirements of the Airline Operations of Northern Airlines Group during the forecasted period. In preparing the cash flow forecast, management has considered historical cash requirements of the Airline Operations of Northern Airlines Group as well as other key factors, including the availability of the above-mentioned loan renewals which may impact the operations of the Airline Operations of Northern Airlines Group during the next twelve-month period. Management is 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 AND ECONOMIC RISKS

The Airline Operations of Northern Airlines Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risk 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 Airline Operations of Northern Airlines Group has significant exposure to interest rate fluctuation as a significant portion of its loans are interest bearing at floating rates. Fluctuation in interest rates affects the results of the Airline Operations of Northern Airlines Group significantly because the Airline Operations of Northern Airlines Group is not able to hedge its interest rate exposure effectively. The interest rates and maturity information of the bank and other loans of the Airline Operations of Northern Airlines Group and the maturity information of the finance lease obligations of the Airline Operations of Northern Airlines Group are disclosed in Notes 18 and 19 respectively.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

27. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

FOREIGN CURRENCY RISK

The Airline Operations of Northern Airlines Group has significant exposure to foreign currency as substantially all of its lease obligations and a significant portion of its bank loans are denominated in foreign currencies, principally US dollars, and to a lesser extent, Japanese yen. Depreciation or appreciation of Renminbi against foreign currencies affects the results of the Airline Operations of Northern Airlines Group significantly because the foreign currency payments of the Airline Operations of Northern Airlines Group significantly exceed its foreign currency receipts. The Airline Operations of Northern Airlines 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.

CREDIT RISKS

Substantially all of the cash and cash equivalents of the Airline Operations of Northern Airlines Group are deposited with PRC financial institutions.

Prior to 2003, a significant portion of the air tickets of the Airline Operations of Northern Airlines Group were 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 at 31 December, 2001 and 2002, the balance due from BSP agents amounted to approximately RMB77 million and RMB98 million respectively.

Beginning in 2003, a significant portion of the air tickets of the Airline Operations of Northern Airlines Group are sold through the sale network of the Company and flight revenue uplifted by the Airline Operations of Northern Airlines Group is billed and collected from the Company. As at 31 December, 2003 and 30 June, 2004, the receivable due from the Company amounted to approximately RMB186 million and RMB345 million respectively.

SELF INSURANCE RISK

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

FAIR VALUE

Financial assets of the Airline Operations of Northern Airlines Group include cash and cash equivalents, other investments, trade receivables, and other receivables and prepaid expenses. Financial liabilities of the Airline Operations of Northern Airlines Group include bank and other loans, obligations under finance leases, other liabilities and accrued expenses and accounts payable. The Airline Operations of Northern Airlines Group did not hold nor issue any financial instruments for trading purposes during the relevant period. The Airline Operations of Northern Airlines Group did not have any positions in derivative contracts as at 31 December, 2001, 2002 and 2003 and 30 June, 2004.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value estimates, methods and assumptions, set forth below for the financial instruments of the Airline Operations of Northern Airlines Group are made solely to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by the Airline Operations of Northern Airlines Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Airline Operations of Northern Airlines Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

27. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE (Continued)

The following summarise the major methods and assumptions used in estimating the fair values of the financial instruments of the Airline Operations of Northern Airlines Group.

Long term debts

The fair values of the long term debts are estimated by discounting future cash flows using current market interest rates offered to the Airline Operations of Northern Airlines Group for debts with substantially the same characteristics and maturities. As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the carrying amounts and fair values of the long term debts of the Airline Operations of Northern Airlines Group are as follows:

	31 DECEMBER,						30
	2001		2002		2003		2
	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	CARRYING AMOUNT RMB'000
Long term debts	3,954,438	3,962,240	2,488,595	2,526,135	2,527,112	2,549,524	2,149,127

Other investments

Other investments are unlisted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

Finance lease obligations

The economic characteristics of the leases of the Airline Operations of Northern Airlines Group 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 financial instruments

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short term maturity of these instruments.

28. SUBSIDIARY

The particulars of the subsidiary of the Airline Operations of Northern Airlines as at 30 June, 2004 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST		ISSUED/REGISTERED CAPITAL	PRINCIPAL ACTI
		DIRECT %	INDIRECT %		

China Northern Airlines Aircraft Maintenance Co., Ltd.	PRC 8 November, 1997	75	-	USD3,800,000	Aircraft repai maintenance services

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

29. RECONCILIATION AND SUPPLEMENTARY COMBINED STATEMENTS OF CASH FLOWS INFORMATION

(i) Reconciliation of (loss)/profit before income tax and minority interests to net cash from/(used in) operating activities is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH ENDED 3
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)
(Loss)/profit before income tax and minority interests	(539,574)	(1,150,834)	(1,368,729)	(689,733)
Depreciation and amortisation	678,435	662,040	647,263	319,023
Amortisation of deferred credit	(8,826)	(8,826)	(8,826)	(4,413)
Impairment loss on aircraft and other flight equipment	433,378	346,654	555,349	-
Deficit on revaluation of property, plant and equipment	-	-	492,369	-
(Gain)/loss on disposal of property, plant and equipment	(14,634)	(22,873)	(729)	(3,224)
Interest income	(59,903)	(28,583)	(12,943)	(6,921)
Interest expense	724,605	700,752	627,190	312,183
Unrealised exchange (gain)/loss, net	(254,610)	161,210	246,001	568
(Increase)/decrease in inventories	(69,439)	(68,256)	118,253	14,508
Decrease/(increase) in trade receivables	139,044	(75,400)	(49,909)	45,005
(Increase)/decrease in other receivables and prepaid expenses	(35,626)	152,533	(136,603)	(320,635)
Increase/(decrease) in accounts payable	94,680	(49,112)	26,022	22,408
(Decrease)/increase in sales in advance of carriage	(47,933)	48,236	(92,039)	(68,108)
Increase in other liabilities and accrued expenses	51,849	158,730	144,465	222,361
Cash generated from/(used in) operations	1,091,446	826,271	1,187,134	(156,978)
Interest received	58,506	26,938	11,337	6,828
Interest paid	(759,523)	(749,664)	(657,922)	(339,503)

Income tax paid	(314)	(715)	(321)	-
Net cash from/(used in) operating activities	390,115	102,830	540,228	(489,653)

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

29. RECONCILIATION AND SUPPLEMENTARY COMBINED STATEMENTS OF CASH FLOWS INFORMATION (Continued)

(ii) DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

(a) Acquisition of aircraft

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Aircraft acquired under finance leases	744,089	783,098	-	-	-
Net cash proceeds from manufacturers' credit	414,722	547,629	-	-	-
Finance lease obligations incurred	1,158,811	1,330,727	-	-	-

(b) Net liabilities assumed by owner of Northern Airlines

As disclosed in Note 2, in connection with the Reorganisation and the Acquisition, certain assets and liabilities that were not to be acquired by the Company, but were historically associated with the Airline Operations of Northern Airlines Group, were assumed by owner of Northern Airlines. The net liabilities assumed by owner of Northern Airlines other than cash and cash equivalents amounted to approximately RMB4,679 million.

30. ULTIMATE HOLDING COMPANY

Management of the Airline Operations of Northern Airlines consider the ultimate holding company to be CSAHC, a state-owned enterprise established in the PRC.

(VI) SUBSEQUENT EVENTS

In July 2001, the Airline Operations of Northern Airlines Group filed a claim with a PRC court against a shareholder (the "minority shareholder") of a previous non-wholly owned subsidiary, China Northern Swan Airlines Co. Ltd. ("CNSA") for its failure to contribute capital of approximately RMB62 million to the subsidiary. In 2002, the minority shareholder filed a defence and a counterclaim against the Airline Operations of Northern Airlines Group demanding (i) a monetary compensation of approximately RMB0.3 million plus legal costs; (ii) voidance of certain transactions conducted by CNSA with the Airline Operations of Northern Airlines Group which could result in losses to the Airline Operations of Northern Airlines Group in the estimated sum of approximately RMB50 million; and (iii) restoration of certain operating lease arrangements for eight McDonald Douglas 82 aircraft previously leased by the Airline Operations of Northern Airlines Group to CNSA.

(VI) SUBSEQUENT EVENTS (CONTINUED)

The Airline Operations of Northern Airlines Group made a provision of approximately RMB32 million in the combined statement of operation for the year ended 31 December, 2002. The provision was recorded under sub-item "Others, net" under Non-operating income/(expenses) in the combined statement of operations. Such provision was arrived at by management of the Airline Operations of Northern Airlines Group after taking into account all relevant information of available to the Airline Operations of Northern Airlines Group.

In August 2004, an out-of-court settlement was reached amongst the parties. Pursuant to the out-of-court settlement agreement, the Airline Operations of Northern Airlines Group paid approximately RMB32 million to the minority shareholder and in return the minority shareholder revoked its counterclaim against the Airline Operations of Northern Airlines Group.

(VII) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Airline Operations of Northern Airlines Group in respect of any period subsequent to 30 June, 2004.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IX, a copy of the following accountants' report is available for inspection.

[KPMG LOGO] 8th Floor

Prince's Building
10 Chater Road
Hong Kong

The Directors
China Southern Airlines Company Limited
Baiyun International Airport
Guangzhou
People's Republic of China

12 November, 2004

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to the airline and airline related operations (the "Airline Operations") of Xinjiang Airlines Company ("Xinjiang Airlines") and its subsidiaries ("Xinjiang Airlines Group"), in Sections I to VI below (the "Financial Information"), including the combined balance sheets as at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the combined statements of operations, the combined statements of changes in owner's fund and the combined statements of cash flows for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004 (the "relevant period"), and the notes thereto, for inclusion in the shareholders' circular of China Southern Airlines Company Limited (the "Company") dated 12 November, 2004 (the "Circular").

Xinjiang Airlines was established on 1 January, 1985 in the People's Republic of China (the "PRC") and is a wholly-owned subsidiary of China Southern Air Holding Company ("CSAHC"), the ultimate holding company of the Company. It is principally engaged in the provision of domestic and international passenger, cargo and mail airline services, with flights operating primarily from Urumqi International Airport which is the main base of Xinjiang Airlines in the PRC. In addition, Xinjiang Airlines Group also engages in other non airline related operations (the "Non Airline Operations") mainly consisting of property operations which provide supporting services to Xinjiang Airlines Group.

CSAHC has undergone a reorganisation (the "Reorganisation") in connection with the proposed acquisition of the Airline Operations of Xinjiang Airlines Group by the Company. As part of the Reorganisation, the operations and businesses and the assets and liabilities of Xinjiang Airlines Group were segregated into two operations, namely the Airline Operations and the Non Airline Operations on 31 December, 2003.

Pursuant to the Sale and Purchase Agreement, as described more fully in the section headed "The Sale and Purchase Agreement" in the letter from the Board contained in the Circular, the Company will acquire the Airline Operations of Xinjiang Airlines Group together with the related assets and liabilities. However, certain assets within the Airline Operations of Xinjiang Airlines Group are not to be acquired by the Company.

Xinjiang Airlines Group prepares financial statements in accordance with the relevant accounting rules and regulations in the PRC. The financial statements of the Airline Operations of Xinjiang Airlines Group were not

required to be audited by independent auditors during the relevant period.

BASIS OF PREPARATION

The Financial Information has been prepared by management of the Airline Operations of Xinjiang Airlines Group based on the management accounts of the Airline Operations of Xinjiang Airline Group and on the bases set out in Section V Notes 2 and 3 to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. IFRS includes International Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND REPORTING ACCOUNTANTS

Management of the Airline Operations of Xinjiang Airlines Group are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information of the Airline Operations of Xinjiang Airlines Group for the relevant period in accordance with Statements of Auditing Standards and Guidelines issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guidelines "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the Airline Operations of Xinjiang Airlines Group in respect of any period subsequent to 30 June, 2004.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management of the Airline Operations of Xinjiang Airlines Group in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Airline Operations of Xinjiang Airlines Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information for the purpose of this report, and on the basis of presentation set out in Section V Notes 2 and 3, gives a true and fair view of the combined state of affairs of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2001, 2002 and 2003 and 30 June, 2004, and of the combined results and combined cash flows of the Airline Operations of Xinjiang Airlines Group for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004 and has been properly prepared in accordance with IFRS.

APPENDIX III ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION OF THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

(I) COMBINED STATEMENTS OF OPERATIONS

		YEARS ENDED 31 DECEMBER,			SIX-EN
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'00 (unaudit
OPERATING REVENUE					
Traffic revenue		2,048,009	2,215,380	2,075,074	717,
Other operating revenue		126,231	137,732	76,559	55,
TOTAL OPERATING REVENUE	4	2,174,240	2,353,112	2,151,633	773,
OPERATING EXPENSES					
Flight operations		1,001,641	1,036,133	1,061,919	486,
Maintenance		200,572	203,311	250,380	108,
Aircraft and traffic servicing		201,941	205,208	275,658	111,
Promotion and sales		99,966	117,333	137,562	54,
General and administrative		86,380	98,247	119,052	51,
Depreciation and amortisation		314,991	352,150	346,304	166,
Others		-	143,717	-	
TOTAL OPERATING EXPENSES	5	1,905,491	2,156,099	2,190,875	979,
OPERATING PROFIT/(LOSS)		268,749	197,013	(39,242)	(206,
NON-OPERATING INCOME/(EXPENSES)					
Interest income		2,530	1,347	1,776	
Interest expense	6	(189,165)	(184,018)	(201,415)	(81,
Exchange gain/(loss), net		3,198	(345)	792	
Loss on disposal of property, plant and equipment		(8,581)	(2,219)	(7,943)	(3,
Deficit on revaluation of property, plant and equipment	9	-	-	(234,835)	
TOTAL NON-OPERATING EXPENSES, NET		(192,018)	(185,235)	(441,625)	(84,

PROFIT/(LOSS) BEFORE INCOME TAX AND MINORITY INTERESTS		76,731	11,778	(480,867)	(290,
Income tax	7	(35,782)	(9,492)	155,808	95,
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		40,949	2,286	(325,059)	(195,
Minority interests		-	522	25,957	
NET PROFIT/(LOSS)		40,949	2,808	(299,102)	(194,

(II) COMBINED BALANCE SHEETS

		31 DECEMBER,			30 JUNE
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'00
NON-CURRENT ASSETS					
Property, plant and equipment, net	9	4,127,530	4,387,744	4,140,976	4,043,7
Construction in progress	10	61,450	66,144	32,223	13,4
Other investments		890	890	-	
Lease and equipment deposits		243,256	53,715	53,715	53,6
Deferred tax assets	19	-	-	-	19,1
TOTAL NON-CURRENT ASSETS		4,433,126	4,508,493	4,226,914	4,129,9
CURRENT ASSETS					
Inventories	11	73,117	60,056	59,231	71,3
Trade receivables	12	162,634	183,623	96,288	125,2
Other receivables and prepaid expenses	13	117,134	168,737	130,234	169,2
Cash and cash equivalents	14	256,685	246,387	376,781	286,9
TOTAL CURRENT ASSETS		609,570	658,803	662,534	652,8
CURRENT LIABILITIES					
Bank and other loans	15	693,027	890,271	932,780	1,056,6
Other liabilities and accrued expenses	16	521,511	637,228	702,481	718,7
Accounts payable	17	71,643	92,603	93,987	128,6
Sales in advance of carriage		36,947	19,488	3,268	
Tax payable		17,267	14,267	1,857	

TOTAL CURRENT LIABILITIES	1,340,395	1,653,857	1,734,373	1,904,0
NET CURRENT LIABILITIES	(730,825)	(995,054)	(1,071,839)	(1,251,2
TOTAL ASSETS LESS CURRENT LIABILITIES	3,702,301	3,513,439	3,155,075	2,878,6

(II) COMBINED BALANCE SHEETS (CONTINUED)

		31 DECEMBER,			30 JUNE,
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
NON-CURRENT LIABILITIES AND DEFERRED ITEMS					
Bank and other loans	15	2,384,972	2,051,386	1,960,461	1,735,037
Provision for major overhauls	18	150,708	161,594	182,727	182,319
Deferred tax liabilities	19	122,691	132,183	4,853	-
TOTAL NON-CURRENT LIABILITIES		2,658,371	2,345,163	2,148,041	1,917,356
MINORITY INTERESTS		-	94,735	78,173	76,777
		1,043,930	1,073,541	928,861	884,550
Representing:					
OWNER'S FUND - SURPLUS		1,043,930	1,073,541	928,861	884,550

(III) COMBINED STATEMENTS OF CHANGES IN OWNER'S FUND

	Note	RMB'000
Surplus of owner's fund as at 1 January, 2001		1,018,312
Net profit for the year		40,949

Distributions to owner		(15,331)
SURPLUS OF OWNER'S FUND AS AT 31 DECEMBER, 2001		1,043,930
Surplus of owner's fund as at 1 January, 2002		1,043,930
Net profit for the year		2,808
Contributions from owner		26,803
SURPLUS OF OWNER'S FUND AS AT 31 DECEMBER, 2002		1,073,541
Surplus of owner's fund as at 1 January, 2003		1,073,541
Net loss for the year		(299,102)
Assets distributed to owner in connection with the Reorganisation and Acquisition	2	(47,802)
Surplus arising from revaluation of property, plant and equipment, net of minority interests' share	9	227,452
Elimination of net deferred tax assets	19	(23,625)
Recognition of deferred tax liabilities	19	(4,853)
Contributions from owner		3,250
SURPLUS OF OWNER'S FUND AS AT 31 DECEMBER, 2003		928,861
Surplus of owner's fund as at 1 January, 2004		928,861
Net loss for the period		(44,311)
SURPLUS OF OWNER'S FUND AS AT 30 JUNE, 2004		884,550

(IV) COMBINED STATEMENTS OF CASH FLOWS

		YEARS ENDED 31 DECEMBER,		
	Note	2001 RMB'000	2002 RMB'000	200 RMB'
CASH FLOWS FROM OPERATING ACTIVITIES	25(i)	326,210	560,964	295
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment		21,183	25,119	39
Proceeds from disposal of				

long term investment	-	-	
Payment of lease and equipment deposits	(22,365)	-	
Refund of lease and equipment deposits	207,984	189,541	
Capital expenditures	(1,071,705)	(697,919)	(157
Purchase of long term investments	(890)	-	
NET CASH USED IN INVESTING ACTIVITIES	(865,793)	(483,259)	(116
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other loans	1,195,000	1,435,000	1,656
Repayment of bank and other loans	(528,315)	(1,568,342)	(1,704
Capital contribution received from minority shareholders	92,394	45,339	
Repayment of principal under finance lease obligations	(129,712)	-	
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	629,367	(88,003)	(48
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	89,784	(10,298)	130
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	166,901	256,685	246
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	256,685	246,387	376

(V) NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACTIVITIES AND REORGANISATION

Xinjiang Airlines Company ("Xinjiang Airlines") was established on 1 January, 1985 in the People's Republic of China (the "PRC") and is a wholly-owned subsidiary of China Southern Air Holding Company ("CSAHC"), the ultimate holding company of China Southern Airlines Company Limited (the "Company"). Xinjiang Airlines together with its subsidiaries ("Xinjiang Airlines Group") is principally engaged in the provision of domestic and international passenger, cargo and mail airline services, with flights operating primarily from Urumqi International Airport which is the main base of Xinjiang Airlines in the PRC. In addition, Xinjiang Airlines Group also engages in other non airline related operations (the "Non Airline Operations") mainly consisting of property operations which provide supporting services to Xinjiang Airlines Group.

CSAHC has undergone a reorganisation (the "Reorganisation") in connection with the proposed acquisition of the airline and airline related operations (the "Airline Operations") of Xinjiang Airlines Group by the Company (the "Acquisition"). As part of the Reorganisation, the operations and businesses and the assets and liabilities of Xinjiang Airlines Group were segregated into two operations, namely the Airline Operations and the Non Airline Operations on 31

December, 2003.

Pursuant to the Sale and Purchase Agreement, as described more fully in the section headed "The Sale and Purchase Agreement" in the letter from the Board contained in the Circular, the Company will acquire the Airline Operations of Xinjiang Airlines Group together with the related assets and liabilities. However, certain assets within the Airline Operations of Xinjiang Airlines Group are not to be acquired by the Company.

2. BASIS OF PRESENTATION

The Financial Information for each of the years in the three-year period ended 31 December, 2003 and for the six-month period ended 30 June, 2004 presents the results of the Airline Operations of Xinjiang Airlines Group as if the Reorganisation had taken place and the Airline Operations of Xinjiang Airlines Group had been in operation on a stand alone basis as of the earliest date presented and had been in existence throughout the relevant period. The Financial Information for each of the years in the three-year period ended 31 December, 2003 includes the results related to those assets that were not to be acquired by the Company, but were historically associated with the Airline Operations of Xinjiang Airlines Group. As at 31 December, 2003, the assets not to be acquired by the Company consisted of the following:

	RMB'000
Property, plant and equipment, net	46,272
Trade and other receivables	1,530
Assets distributed to owner	47,802

The assets within the Airline Operations of Xinjiang Airlines Group not to be acquired by the Company on 31 December, 2003 were reflected as assets distributed to owner of Xinjiang Airlines in the combined statements of owner's fund as at 31 December, 2003.

As a result of the distribution of the above assets as at 31 December, 2003 to the owner, the Financial Information for the six-month period ended 30 June, 2004 presents the results of the assets and liabilities, revenues and expenses of the Airline Operations of Xinjiang Airlines Group to be acquired by the Company.

Notwithstanding the Airline Operations of Xinjiang Airlines Group having net current liabilities as at 30 June, 2004, the Financial Information has been prepared on a going concern basis on the assumption that the Airline Operations of Xinjiang Airlines Group will be able to generate adequate cash flows from operations and to obtain adequate external financing to enable the Airline Operations of Xinjiang Airlines Group to meet its debts as they fall due and to meet its committed future capital expenditure (see Note 22).

3. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and interpretations.

(b) BASIS OF PREPARATION

The Financial Information is prepared on the historical cost basis as modified by the revaluation of property, plant and equipment, as explained in Note 9. The accounting policies described below have been consistently applied during the relevant period.

(c) BASIS OF CONSOLIDATION

A subsidiary is an enterprise controlled by the Airline Operations of Xinjiang Airlines. Control exists when the Airline Operations of Xinjiang Airlines has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial results of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases, and the share attributable to minority interests is deducted from or added to the profit/loss after income tax. All significant intercompany balances and transactions and any unrealised gains and losses arising from intercompany transactions are eliminated on consolidation.

The particulars of the principal subsidiaries are set out in Note 24.

(d) PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

(i) Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses (see Note (f)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the period of construction. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure including the cost of repairs and maintenance, is expensed as it is incurred.

(ii) Subsequent to the revaluation carried out as at 31 December, 2003, which was based on depreciated replacement costs (Note 9), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. When an item of property, plant and equipment is revalued, any accumulated depreciation and impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset and the net asset restated to the revalued amount of the asset. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs is revalued

simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to owner's fund. However, a revaluation increase is recognised as an income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the combined statements of operations. However, a revaluation decrease is charged directly against owner's fund to the extent that the decrease does not exceed the amount previously credited to owner's fund in respect of the same asset. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION (Continued)

(iii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the combined statements of operations on the date of retirement or disposal.

(iv) Depreciation is calculated to write off the cost, or revalued amount, where appropriate, of property, plant and equipment on a straight line basis over their estimated useful lives, to residual values, using the following depreciation rates:

	DEPRECIATION RATES
BUILDINGS	2.43% - 6.17%
Owned and finance leased aircraft	4.75% - 12.13%
Other flight equipment	
- Jet engines	4.75% - 12.13%
- Others, including rotable spares	9.79% - 12.13%
Machinery and equipment	9.70% - 11.40%
Vehicles	16.17%

(e) LEASED ASSETS

Flight equipment under finance leases is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at inception of the lease, and is amortised on a straight line basis over the shorter of the lease term or estimated useful life of the asset to residual value. In cases where title to the asset will be

acquired by the Airline Operations of Xinjiang Airlines Group at the end of the lease, the asset is amortised on a straight line basis over the estimated useful life of the asset to its residual value.

Amounts payable in respect of finance leases are apportioned between charges and reductions of obligations based on the interest rates implicit in the leases. Interest charges are included in the combined statements of operations to provide a constant periodic rate of charge over the lease term.

Operating lease payments are charged to the combined statements of operations on a straight line basis over the terms of the related leases.

(f) IMPAIRMENT OF ASSETS

The carrying amounts of the assets, other than inventories (see Note (i)), trade and other receivables (see Note (j)) and deferred tax assets (see Note (m)) of the Airline Operations of Xinjiang Airlines Group, 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 combined statements of operations.

The Airline Operations of Xinjiang Airlines 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.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) CONSTRUCTION IN PROGRESS

Construction in progress is stated in the combined balance sheets at cost less impairment losses (see Note (f)). Cost comprises direct costs of construction as well as interest expense and exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charge 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 substantially all the activities necessary to prepare the asset for its

intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(h) INVESTMENTS

Investments, which represent unquoted available-for-sale equity securities of companies established in the PRC, are stated at cost less impairment losses (see Note (f)). 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 balance with banks and other financial institutions with an original maturity within three months. Cash equivalents are stated at cost, which approximates fair value.

(l) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised at cost.

(m) INCOME TAXES

Income tax comprises current and deferred tax. Current tax is calculated on the taxable income for the relevant period by applying the applicable tax rates.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Airline Operations of Xinjiang Airlines Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) REVENUE RECOGNITION

(i) Passenger, cargo and mail transportation revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities. Revenues from airline-related business are recognised when services are rendered.

Revenue is stated net of sales tax. In addition, revenue for each of the years in the three-year period ended 31 December, 2003 and the three-month period ended 31 March, 2004 was stated net of contributions to the Civil Aviation Administration of China ("CAAC") Infrastructure Development Fund. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund form part of the flight operations expenses instead of being netted off with revenue.

(ii) Interest income is recognised as it accrues unless collectability is in doubt.

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

(p) 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 in the combined balance sheets as prepaid expense.

(q) MAINTENANCE AND OVERHAUL COST

Routine maintenance and repairs and overhauls in respect of owned aircraft and aircraft held under finance leases are expensed in the combined statements of operations 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.

(r) TRANSLATION OF FOREIGN CURRENCIES

The functional currency of the operations of the Airline Operations of Xinjiang Airlines Group is Renminbi. Foreign currency transactions are translated into Renminbi at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses, other than those capitalised as construction in progress (See Note (g)), are recognised in the combined statements of operations.

(s) BORROWING COSTS

Borrowing costs are expensed in the combined statements of operations in the period in which they are 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 (See Note (g)).

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) RETIREMENT BENEFITS

Contributions to defined contribution retirement schemes made by the Airline Operations of Xinjiang Airlines Group are charged to the combined statements of operations as and when incurred (see Note 21).

(u) RELATED PARTIES

For the purposes of the Financial Information set out below, parties are considered to be related to the Airline Operations of Xinjiang Airlines Group if the Airline Operations of Xinjiang Airlines 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 Airline Operations of Xinjiang Airlines Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(v) SEGMENT REPORTING

A segment is a distinguishable component of the Airline Operations of Xinjiang Airlines 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.

The Airline Operations of Xinjiang Airlines Group operates principally as a single business segment for the provision of air transportation services. The analysis of operating revenue 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 overseas destinations is attributed to the international operation.

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

(w) USE OF ESTIMATES

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at 31 December, 2001, 2002 and 2003 and 30 June, 2004 and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from those estimates.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE

Operating revenue comprises revenues from airline and airline related business and is stated net of sales tax. In addition, the operating revenue for each of the years in the three-year period ended 31 December, 2003 and the three-month period ended 31 March, 2004 was stated net of contributions to the CAAC Infrastructure Development Fund. An analysis of operating revenue is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
TRAFFIC REVENUE					
Passenger	1,950,343	2,104,039	1,982,250	675,798	1,126,626
Cargo and mail	97,666	111,341	92,824	41,512	49,674
	2,048,009	2,215,380	2,075,074	717,310	1,176,300
OTHER OPERATING REVENUE					
Commission income	5,209	5,382	7,840	3,459	6,139
Ground services income	-	8,784	14,098	4,671	6,589
Aircraft lease income	114,427	112,370	35,729	34,196	7,116

Others	6,595	11,196	18,892	13,514	18,932
	126,231	137,732	76,559	55,840	38,776
	2,174,240	2,353,112	2,151,633	773,150	1,215,076

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE (Continued)

Pursuant to various sales tax rules and regulations, the Airline Operations of Xinjiang Airlines Group is required to pay sales tax to national and local tax authorities at the following rates during the relevant period:

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

The amount of sales tax incurred during the relevant period is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Sales tax netted off against operating revenue	68,057	74,528	21,516	17,827	39,550

In addition, the Airline Operations of Xinjiang Airlines Group is required to pay contributions to the CAAC Infrastructure Development Fund. Prior to 1 April, 2004, contributions to the CAAC Infrastructure Development Fund were payable at 5% and 2% respectively of the domestic and international traffic revenue of the Airline Operations of Xinjiang Airlines Group except for the period from 1 May, 2003 to 31 March, 2004 during which the Airline Operations of Xinjiang Airlines Group was exempted from contributions to the CAAC

Infrastructure Development Fund. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund are payable based on the traffic capacity of the Airline Operations of Xinjiang Airlines Group deployed on its routes. The contributions now form part of the flight operations expenses.

Contributions made to the CAAC Infrastructure Development Fund during the relevant period are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Contributions made to the CAAC Infrastructure Development Fund					
- netted off against traffic revenue	108,283	117,522	28,238	28,238	-
- included in flight operations expenses	-	-	-	-	18,703
	108,283	117,522	28,238	28,238	18,703

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

4. OPERATING REVENUE (Continued)

An analysis of the operating revenue of the Airline Operations of Xinjiang Airlines Group by geographical segment is set out as below:

	DOMESTIC	*INTERNATIONAL	TOTAL
	RMB'000	RMB'000	RMB'000
YEAR ENDED 31 DECEMBER, 2001			
Traffic revenue	1,955,009	93,000	2,048,009
Other revenue	126,231	-	126,231
Total operating revenue	2,081,240	93,000	2,174,240
YEAR ENDED 31 DECEMBER, 2002			
Traffic revenue	2,110,380	105,000	2,215,380

Other revenue	137,732	-	137,732
Total operating revenue	2,248,112	105,000	2,353,112
YEAR ENDED 31 DECEMBER, 2003			
Traffic revenue	1,967,212	107,862	2,075,074
Other revenue	76,559	-	76,559
Total operating revenue	2,043,771	107,862	2,151,633
SIX-MONTH PERIOD ENDED 30 JUNE, 2003 (UNAUDITED)			
Traffic revenue	679,912	37,398	717,310
Other revenue	55,840	-	55,840
Total operating revenue	735,752	37,398	773,150
SIX-MONTH PERIOD ENDED 30 JUNE, 2004			
Traffic revenue	1,109,261	67,039	1,176,300
Other revenue	38,776	-	38,776
Total operating revenue	1,148,037	67,039	1,215,076

* Routes are mainly between the PRC and Hong Kong, Pakistan and Russia.

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

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

5. OPERATING EXPENSES

An analysis of the operating expenses during the relevant period is set out below:

	YEARS ENDED 31 DECEMBER,		SIX-MONTH PERIODS ENDED 30 JUNE,

	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Jet fuel	536,466	472,855	481,198	211,472	314,402
Aircraft maintenance	189,487	196,739	245,065	108,682	122,283
Routes	317,150	334,768	406,533	179,463	213,694
Depreciation and amortisation					
- owned assets	312,814	352,150	346,304	166,247	173,177
- assets held under finance leases	2,177	-	-	-	-
Operating lease charges					
- aircraft and other flight equipment	183,686	263,970	253,621	125,171	125,980
- buildings	10,606	7,857	6,893	4,111	4,565
Staff costs					
- salaries, wages and welfare	139,999	160,259	230,165	94,081	114,730
- contributions to defined contribution retirement schemes	7,265	7,119	13,972	6,517	16,259
Office and administration	16,709	27,157	93,990	37,010	45,532
Impairment loss on aircraft and other flight equipment (Note)	-	131,710	-	-	-
Provision for obsolescence of inventories (Note)	-	12,007	-	-	-
Others	189,132	189,508	113,134	46,488	84,674
	1,905,491	2,156,099	2,190,875	979,242	1,215,296

Note: In accordance with the regulations announced by the CAAC in 2002, IL86 aircraft were not allowed to fly unless they were installed with additional security modules starting from 1 January, 2003. After having evaluated the costs and benefits, management decided to ground the aircraft. Management assessed the recoverable amount of the IL86 aircraft and their related flight equipment and spare parts. Impairment loss and provision for obsolescence of inventories approximately RMB132 million and RMB12 million respectively were provided for to write down the carrying value of the aircraft and their related assets to their estimated net realisable value.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

6. INTEREST EXPENSE

An analysis of the interest expense is set out below:

YEARS ENDED 31 DECEMBER,	SIX-MONTH PERIODS ENDED 30 JUNE,

	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Finance charges on obligations under finance leases	1,541	-	-	-	-
Interest on bank and other loans wholly repayable within five years	38,099	48,809	110,559	33,780	39,523
Interest on other loans	149,525	135,209	90,856	47,572	29,894
	189,165	184,018	201,415	81,352	69,417

7. INCOME TAX

Income tax in the combined statements of operations represents:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Deferred taxation (Note 19)	35,782	9,492	(155,808)	(95,258)	(24,048)

Pursuant to the income tax rules and regulations of the PRC, the Airline Operations of Xinjiang Airlines Group is liable to PRC income tax at a rate of 33%.

In respect of the overseas airline activities, the Airline Operations of Xinjiang Airlines 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 the relevant period.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

7. INCOME TAX (Continued)

A reconciliation of the expected tax expense with the actual tax expense is as follows:

	YEARS ENDED 31 DECEMBER,	SIX-MONTH PERIODS ENDED 30 JUNE,

	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	200 RMB'0
Profit/(loss) before income tax and minority interests		76,731	11,778	(480,867)	(290,456)	(69,7
Expected PRC income tax expense/(credit) at 33%		25,321	3,887	(158,686)	(95,850)	(23,0
Adjustments:						
- Non-deductible expenses	(i)	10,461	5,605	2,878	1,205	2,0
- Non-taxable income		-	-	-	-	(7
- Differences in income and expense recognition for certain inter-company transactions	(ii)	-	-	-	(613)	(2,3
		35,782	9,492	(155,808)	(95,258)	(24,0

Notes:

(i) Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for taxation purpose.

(ii) Amounts represent tax effects of differences in the recognition of income and expenses in respect of certain inter-company transactions. Such differences in recognition of income and expenses are eliminated on consolidation.

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.

During the relevant period, PRC withholding tax payable in respect of the leases executed on or after 1 September, 1999, which has been included as part of the operating lease charges, are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
PRC withholding tax	1,818	7,601	7,957	3,824	3,948

APPENDIX III ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION OF THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

8. DIRECTORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(i) DIRECTORS' EMOLUMENTS

No board of directors or similar corporate governance body was established by the Airline Operations of Xinjiang Airlines during the relevant period. Accordingly, no directors' emoluments were paid during the relevant period.

(ii) INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of emoluments paid to the five highest paid individuals are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2004 RMB'000
Salaries, allowances and benefits in kind	286	214	420	172	388
Retirement benefits	37	23	62	29	29
	323	237	482	201	417

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument ranges is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIODS ENDED 30 JUNE,	
	2001	2002	2003	2003 (unaudited)	2004
RMB Nil - RMB1,060,000 (HK$1,000,000 equivalent)	5	5	5	5	5

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the relevant period.

APPENDIX III ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION OF THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET

		AIRCRAFT		OTHER FLIGHT EQUIPMENT,	MAC EQU
	BUILDINGS RMB'000	OWNED RMB'000	HELD UNDER FINANCE LEASES RMB'000	INCLUDING ROTABLE SPARES RMB'000	VE RM
COST:					
At 1 January, 2001	552,094	2,943,879	289,321	940,429	
Reclassification on exercise of purchase options	-	289,321	(289,321)	-	
Additions	-	948,783	-	50,788	
Transferred from construction in progress	-	7,806	-	-	
Disposals	(4,064)	(246,033)	-	(155,878)	
At 31 December, 2001	548,030	3,943,756	-	835,339	
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:					
At 1 January, 2001	51,853	840,805	98,490	470,834	
Reclassification on exercise of purchase options	-	100,667	(100,667)	-	
Depreciation for the year	17,288	195,539	2,177	73,538	
Written back on disposal	(1,548)	(235,050)	-	(150,286)	
At 31 December, 2001	67,593	901,961	-	394,086	
NET BOOK VALUE:					
At 31 December, 2001	480,437	3,041,795	-	441,253	

APPENDIX III ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION OF THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

	AIRCRAFT	OTHER FLIGHT

	BUILDINGS RMB'000	AIRCRAFT OWNED RMB'000	AIRCRAFT HELD UNDER FINANCE LEASES RMB'000	EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000	TOTA RMB'0
COST:						
At 1 January, 2002	548,030	3,943,756	-	835,339	274,989	5,602,
Additions	40,810	501,775	-	142,435	20,035	705,
Transferred from construction in progress	33,920	-	-	-	32,437	66,
Disposals	(16,961)	-	-	-	(29,399)	(46,
At 31 December, 2002	605,799	4,445,531	-	977,774	298,062	6,327,
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:						
At 1 January, 2002	67,593	901,961	-	394,086	110,944	1,474,
Depreciation for the year	18,678	231,434	-	71,655	30,383	352,
Impairment loss for the year	-	80,074	-	51,636	-	131,
Written back on disposal	(4,846)	-	-	-	(14,176)	(19,
At 31 December, 2002	81,425	1,213,469	-	517,377	127,151	1,939,
NET BOOK VALUE:						
At 31 December, 2002	524,374	3,232,062	-	460,397	170,911	4,387,

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

	BUILDINGS RMB'000	AIRCRAFT OWNED RMB'000	AIRCRAFT HELD UNDER FINANCE LEASES RMB'000	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000	TOTA RMB'0
COST OR VALUATION:						
At 1 January, 2003	605,799	4,445,531	-	977,774	298,062	6,327
Transferred to owner upon the Reorganisation	(56,351)	-	-	-	(3,776)	(60
Additions	569	-	-	94,841	7,568	102
Transferred from construction in progress	47,554	-	-	-	40,605	88

Disposals	(2,770)	(317,719)	-	(336,451)	(12,998)	(669
Revaluation	(101,385)	(1,145,358)	-	(253,365)	(147,154)	(1,647
At 31 December, 2003	493,416	2,982,454	-	482,799	182,307	4,140
REPRESENTING:						
Valuation - 2003	493,416	2,982,454	-	482,799	182,307	4,140
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:						
At 1 January, 2003	81,425	1,213,469	-	517,377	127,151	1,939
Transferred to owner upon the Reorganisation	(11,692)	-	-	-	(2,163)	(13
Depreciation for the year	17,093	222,771	-	58,845	47,595	346
Written back on disposal	(90)	(297,328)	-	(323,302)	(1,877)	(622
Elimination on revaluation	(86,736)	(1,138,912)	-	(252,920)	(170,706)	(1,649
At 31 December, 2003	-	-	-	-	-	
NET BOOK VALUE:						
At 31 December, 2003	493,416	2,982,454	-	482,799	182,307	4,140

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

		AIRCRAFT		OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES	MACHINERY, EQUIPMENT AND VEHICLES	
	BUILDINGS RMB'000	OWNED RMB'000	HELD UNDER FINANCE LEASES RMB'000	RMB'000	RMB'000	TOTA RMB'0
COST OR VALUATION:						
At 1 January, 2004	493,416	2,982,454	-	482,799	182,307	4,140
Additions	16	-	-	39,899	3,349	43
Transferred from construction in progress	31,515	-	-	-	2,216	33
Disposals	(148)	-	-	-	(4,716)	(4
At 30 June, 2004	524,799	2,982,454	-	522,698	183,156	4,213
REPRESENTING:						

Cost	31,531	-	-	39,899	5,565	76
Valuation - 2003	493,268	2,982,454	-	482,799	177,591	4,136
	524,799	2,982,454	-	522,698	183,156	4,213
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:						
At 1 January, 2004	-	-	-	-	-	
Depreciation for the period	11,330	117,652	-	25,233	18,962	173
Written back on disposal	(8)	-	-	-	(3,770)	(3
At 30 June, 2004	11,322	117,652	-	25,233	15,192	169
NET BOOK VALUE:						
At 30 June, 2004	513,477	2,864,802	-	497,465	167,964	4,043

All of the buildings of the Airline Operations of Xinjiang Airlines Group are located in the PRC.

As required by the relevant PRC rules and regulations with respect to the Acquisition, the property, plant and equipment of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2003 were revalued for each asset class by China Enterprise Appraisal Co., Ltd. (the "PRC Valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2003 has been determined at approximately RMB4,141 million. Such amount will serve as the tax base for such assets for future years (see Note 19). Surplus arising from revaluation of certain property, plant and equipment totalled approximately RMB237 million. The amount of approximately RMB227 million, net of minority interests' share of approximately RMB10 million, has been credited to the owner's fund. Deficit arising from the revaluation of certain property, plant and equipment totalling approximately RMB235 million has been charged as an expense for the year ended 31 December, 2003. The net surplus on the revaluation of the property, plant and equipment of approximately RMB2 million has been incorporated in the combined balance sheet of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2003.

The properties of the Airline Operations of Xinjiang Airlines Group were also valued separately by Chesterton, independent qualified valuers in Hong Kong, as at 31 December, 2003. The value arrived at by Chesterton was approximately the same as that arrived at by the PRC valuers.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

The historical carrying amounts of the property, plant and equipment of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2003 and the revalued amounts of these assets were as follows:

	HISTORICAL CARRYING AMOUNT	REVALUATION SURPLUS	REVALUATION DEFICIT
	RMB'000	RMB'000	RMB'000
Buildings	508,065	47,162	61,811
Owned aircraft	2,988,900	89,883	96,329
Other flight equipment, including rotable spares	483,244	59,284	59,729
Machinery, equipment and vehicles	158,755	40,518	16,966
	4,138,964	236,847	234,835

The effect of the above revaluation is to increase annual depreciation charges by approximately RMB6 million for year beginning 1 January, 2004. Had the property, plant and equipment been stated at cost less accumulated depreciation and impairment losses, the net book value of the property, plant and equipment of the Airline Operations of Xinjiang Airlines Group as at 30 June, 2004 would have been approximately RMB4, 044 million, made up as follows:

Buildings
Owned aircraft
Other flight equipment, including rotable spares
Machinery, equipment and vehicles

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, certain aircraft of the Airline Operations of Xinjiang Airlines Group with an aggregate carrying value of approximately RMB1,935 million, RMB 1,786 million, RMB 1,772 million and RMB1,689 million respectively, were mortgaged under certain loan agreements (See Note 15).

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

During the relevant period, the Airline Operations of Xinjiang Airlines Group entered into certain lease agreements to lease several of its aircraft to other airlines. The terms of such leases generally range from one to six months. As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the cost or valuation

and accumulated depreciation and impairment losses of the relevant aircraft were set out below:

	31 DECEMBER,			30 JUN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'00
Cost or valuation	287,874	436,493	402,190	
Accumulated depreciation and impairment losses	(110,786)	(95,028)	-	
	177,088	341,465	402,190	

Total future minimum lease payments under non-cancellable operating leases of the Airline Operations of Xinjiang Airlines Group are receivable as follows:

	31 DECEMBER,			30 JUN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'00
Within one year	37,802	32,861	3,953	

10. CONSTRUCTION IN PROGRESS

	YEARS ENDED 31 DECEMBER,			SI PERI 3
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2 RM
Balance at 1 January,	23,873	61,450	66,144	3
Additions	58,597	71,051	54,238	1
Transferred to property, plant and equipment	(21,020)	(66,357)	(88,159)	(3
Balance at 31 December/30 June,	61,450	66,144	32,223	1

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

11. INVENTORIES

	31 DECEMBER,			30
	2001 RMB'000	2002 RMB'000	2003 RMB'000	20 RMB
Expendable spare parts and maintenance materials	66,645	65,611	57,452	69
Other supplies	6,472	6,452	1,779	1
	73,117	72,063	59,231	71
Less: Provision for obsolescence	-	(12,007)	-	
	73,117	60,056	59,231	71

No significant amount of inventories was carried at net realisable value as at 31 December, 2001, 2002 and 2003 and 30 June, 2004.

12. TRADE RECEIVABLES

Credit terms granted by the Airline Operations of Xinjiang Airlines Group to sales agents and other customers generally range from one to three months. An aging analysis of trade receivables, net of provision for doubtful accounts, is set out below:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Within 1 month	142,086	114,605	47,533
More than 1 month but less than 3 months	12,932	24,521	31,886
More than 3 months but less than 12 months	7,616	44,497	16,869
	162,634	183,623	96,288

As at 31 December, 2003 and 30 June, 2004, the Airline Operations of Xinjiang Airlines Group had amount due from a fellow subsidiary of approximately RMB38 million and RMB1 million respectively which was included in trade receivables.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

13. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses comprise:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Prepaid expenses and deposits	28,248	28,321	27,171
Amount due from CSAHC	-	42,585	67,952
Amounts due from related companies	-	-	4,033
Manufacturers' credit receivables	67,532	61,552	14,420
Custom duties refundable	14,728	16,104	3,844
Aircraft lease receivables	3,342	10,002	7,348
Other receivables	3,284	14,825	10,118
	117,134	173,389	134,886
Less: Provision for doubtful accounts	-	(4,652)	(4,652)
	117,134	168,737	130,234

14. CASH AND CASH EQUIVALENTS

	31 DECEMBER,			30
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2 RM
Cash at bank and in hand	248,685	246,387	362,779	26
Time deposits with maturity within three months	8,000	-	14,002	2
	256,685	246,387	376,781	28

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

15. BANK AND OTHER LOANS

The bank and other loans of the Airline Operations of Xinjiang Airlines Group under current liabilities comprise:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Short term bank loans	400,000	680,000	438,980
Short term loans from CSAHC	-	-	345,000

Current portion of long term bank loans	293,027	210,271	148,800
	693,027	890,271	932,780

The weighted average interest rate on short term bank loans of the Airline Operations of Xinjiang Airlines Group was 6.0%, 5.0%, 3.7% and 3.6% as at 31 December, 2001, 2002 and 2003 and 30 June, 2004 respectively.

The short term loans from CSAHC of approximately RMB345 million as at 31 December, 2003 were unsecured and interest free. The short term loans from CSAHC of approximately RMB200 million as at 30 June, 2004 are unsecured and interest bearing at 4.8% per annum.

The long term bank loans of the Airline Operations of Xinjiang Airlines Group comprise:

BANK LOANS	INTEREST RATE AND FINAL MATURITY	31 DECEMBER, 2001 RMB'000	31 DECEMBER, 2002 RMB'000
Renminbi denominated	Floating interest rates as specified by the People's Bank of China ranging from 4.94% to 5.94% per annum as at 30 June, 2004, with maturities through 2011	1,093,450	871,000
US dollars denominated	Fixed interest rates ranging from 2.38% to 7.63% per annum, with maturities through 2013	1,584,549	1,390,657
		2,677,999	2,261,657
	Less: loans due within one year classified as current liabilities	(293,027)	(210,271)
		2,384,972	2,051,386

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

15. BANK AND OTHER LOANS (Continued)

The aggregate maturities of the bank and other loans of the Airline Operations of Xinjiang Airlines Group are analysed as follows:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
BANK AND OTHER LOANS DUE:			
Within one year	693,027	890,271	932,780
In the second year	328,251	224,031	326,098
In the third to fifth year, inclusive	799,418	943,667	901,177
After the fifth year	1,257,303	883,688	733,186
	3,077,999	2,941,657	2,893,241
Portion classified as current liabilities	(693,027)	(890,271)	(932,780)
	2,384,972	2,051,386	1,960,461

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, bank loans of the Airline Operations of Xinjiang Airlines Group totalling approximately RMB1,585 million, RMB1,391 million, RMB1,199 million and RMB1,035 million respectively were secured by mortgages over certain aircraft (See Note 9).

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, certain bank loans of the Airline Operations of Xinjiang Airlines Group were guaranteed by the following parties:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
CAAC	303,950	21,000	-
CSAHC	-	-	60,000
Export-Import Bank of the United States	797,514	716,159	629,307
Bank of China	71,017	61,572	-
The Industrial and Commercial Bank of China	716,018	612,926	205,779
	1,888,499	1,411,657	895,086

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

16. OTHER LIABILITIES AND ACCRUED EXPENSES

Other liabilities and accrued expenses represent:

	31 DECEMBER,

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Accrued expenses	242,418	406,949	476,640
CAAC Infrastructure Development Fund payable	61,086	13,902	20,050
Business and other taxes payable	57,445	36,565	20,491
Salary and staff welfare payable	11,204	17,143	71
Other liabilities	149,358	162,669	185,229
	521,511	637,228	702,481

As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the Airline Operations of Xinjiang Airlines Group had amounts due to related companies of approximately RMB12 million, RMB19 million, RMB22 million and RMB10 million respectively which were included in other liabilities and accrued expenses. These amounts are unsecured, interest free and repayable on demand.

17. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Due within 1 month or on demand	53,893	68,142	22,916
Due after 1 month but within 3 months	17,553	24,264	36,002
Due after 3 months but within 6 months	197	197	35,069
	71,643	92,603	93,987

As at 30 June, 2004, the Airline Operations of Xinjiang Airlines Group had amounts due to a fellow subsidiary of approximately RMB9 million which were included in accounts payable. These amounts are unsecured and interest free.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

18. PROVISION FOR MAJOR OVERHAULS

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

	YEARS ENDED 31 DECEMBER,		SIX-MONTH P ENDED 30

	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)
Balance at 1 January,	153,014	159,918	259,889	259,889
Additional amount provided	79,975	110,846	111,249	58,064
Amount utilised	(73,071)	(10,875)	(14,417)	(6,475)
Balance at 31 December/ 30 June,	159,918	259,889	356,721	311,478
Less: Current portion included in other liabilities and accrued expenses	(9,210)	(98,295)	(173,994)	(143,095)
	150,708	161,594	182,727	168,383

19. DEFERRED TAXATION

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

	YEARS ENDED 31 DECEMBER,			SIX-MONTH ENDED 30
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)
Balance at 1 January,	(86,909)	(122,691)	(132,183)	(132,183)
Transferred from/(to) combined statements of operations (Note 7)	(35,782)	(9,492)	155,808	95,258
Recognised in owner's fund	-	-	(4,853)	-
Net deferred tax assets eliminated against owner's fund	-	-	(23,625)	-
Balance at 31 December/ 30 June,	(122,691)	(132,183)	(4,853)	(36,925)

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

19. DEFERRED TAXATION (Continued)

The net deferred taxation (liabilities)/assets were made up of the following taxation effect:

31 DECEMBER,

	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000
DEFERRED TAX ASSETS:				
Tax losses	(i)	16,121	40,177	-
Repair charges	(ii)	44,025	60,182	-
Provision for doubtful accounts	(ii)	1,689	3,224	-
TOTAL DEFERRED TAX ASSETS		61,835	103,583	-
DEFERRED TAX LIABILITIES:				
Tax depreciation in excess of accounting depreciation	(ii)	(137,819)	(186,057)	-
Repairs and maintenance accruals	(ii)	(46,707)	(49,709)	-
Inventories	(iii)	-	-	(4,853)
TOTAL DEFERRED TAX LIABILITIES		(184,526)	(235,766)	(4,853)
NET DEFERRED TAX (LIABILITIES)/ASSETS		(122,691)	(132,183)	(4,853)

Notes:

(i) The balance of tax losses as at 31 December, 2003 will no longer be available to be carried forward to off-set future taxable income of the Airline Operations of Xinjiang Airlines Group upon completion of the Reorganisation and Acquisition. In this connection, deferred tax asset arising from tax losses amounting to approximately RMB58 million as at 31 December, 2003 was eliminated against owner's fund.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

19. DEFERRED TAXATION (Continued)

(ii) As described in Note 9, in connection with the Reorganisation and Acquisition, property, plant and equipment of the Airline Operations of Xinjiang Airlines Group were revalued as at 31 December, 2003. Such revalued amount will serve as the tax base for these assets for future years. In addition, in connection with the Reorganisation and Acquisition, the tax base of other assets and liabilities of the Airline Operations of Xinjiang Airlines Group that gave rise to the temporary differences above have been adjusted to conform to the related financial reporting carrying amounts. As a result, the temporary differences that gave rise to the deferred tax assets and liabilities relating to the items above as at 31 December, 2003 were eliminated against owner's fund.

An analysis of the net deferred tax liabilities which have been eliminated against owner's fund is set out below:

	RMB'
DEFERRED TAX ASSETS:	
Repair charges	74,
Provision for doubtful accounts	5,
TOTAL DEFERRED TAX ASSETS	79,
DEFERRED TAX LIABILITIES:	
Tax depreciation in excess of accounting depreciation	(114,
TOTAL DEFERRED TAX LIABILITIES	(114,
NET DEFERRED TAX LIABILITIES	(34,

(iii) In connection with the Reorganisation and Acquisition, inventories of the Airline Operations of the Xinjiang Airlines Group, which as at 31 December, 2003 had a carrying amount of approximately RMB59 million, were revalued as required by the relevant PRC rules and regulations. The revalued amount of inventories has been determined at approximately RMB44 million. Such amount will serve as the tax base for future years. The inventories were not revalued for financial reporting purposes and accordingly, a deferred tax liability of approximately RMB5 million was created with a corresponding decrease in owner's fund.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

20. RELATED PARTY TRANSACTIONS

During the period from 1 January, 2001 to 31 December, 2002, the Airline Operations of Xinjiang Airlines Group was under the direct control of the CAAC and therefore, the transactions conducted with the CAAC and its affiliates during the period from 1 January, 2001 to 31 December, 2002 are presented as related party transactions. However, such control was shifted to CSAHC during late 2002. Consequently, transactions with the CAAC and its affiliates are no longer presented as related party transactions from 1 January, 2003 onward.

The principal recurring and non-recurring related party transactions between the Airline Operations of Xinjiang Airlines Group and the CAAC and its affiliates, and CSAHC and its affiliates during the relevant period are summarised as follows:

		YEARS ENDED 31 DECEMBER,			SIX-MONTH ENDED 30
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)

EXPENSES					
PAID TO CAAC AND ITS AFFILIATES					
Handling charges	(i)	1,129	1,988	-	-
Jet fuel supplies	(ii)	536,466	472,855	-	-
Aircraft insurance	(iii)	16,531	31,598	-	-
Ticket reservation service charges	(iv)	8,444	11,314	-	-
Passenger departure and cargo handling charges	(v)	6,908	9,257	-	-
Aircraft and traffic service charges	(vi)	170,399	167,166	-	-
Commission expense	(vii)	53,057	57,951	-	-
PAID TO CSAHC AND ITS AFFILIATES					
Interest expense	(viii)	-	-	-	-
Rentals for land and buildings	(ix)	-	-	-	-
Air catering expenses	(x)	-	-	-	-
Repairing charges	(xi)	-	-	7,971	-
Flight simulation service charges	(xii)	-	-	3,259	1,208
INCOME					
RECEIVED FROM CAAC AND ITS AFFILIATES					
Ground service income	(xiii)	-	5,881	-	-
Aircraft lease income	(xiv)	11,083	55,436	-	-
Commission income	(xv)	5,209	5,382	-	-
RECEIVED FROM CSAHC AND ITS AFFILIATES					
Aircraft lease income	(xvi)	-	26,164	35,751	35,751

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

20. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) Handling charges represent fees payable to China Aviation Supplies Import and Export Corporation, a corporation controlled by the CAAC, in connection with the procurement of aircraft and flight equipment on behalf of the Airline Operations of Xinjiang Airlines Group. Handling charges are calculated based on a fixed percentage of the purchase value and other charges.

(ii) Jet fuel supplies represent purchases of jet fuel at the then prevailing state controlled prices from China Aviation Oil Supply Company, Lan Tian Oil Supply Company and certain other suppliers, which are controlled by the CAAC.

(iii) Aircraft insurance represents insurance premiums payable to the CAAC which arranges aviation insurance covering hull, war and passenger liability risk on behalf of the PRC airlines with the People's Insurance (Property) Company of China. Insurance premiums are allocated to individual PRC airlines by the CAAC based on the value of the airlines aircraft and after taking into account the claims history of the airlines.

(iv) Ticket reservation service charges represent fees payable to the CAAC in respect of computer reservation services rendered by the CAAC at charge rates determined based on the utilisation of the computer reservation system.

(v) Passenger departure and cargo handling charges are payable to the CAAC for use of the computerised passenger departure and cargo handling systems installed at certain PRC airports. The charges are levied based on the utilisation of these systems.

(vi) Aircraft and traffic service charges represent landing and take-off fees payable to various PRC airports in respect of landing and take-off slots allocated to the Airline Operations of Xinjiang Airlines Group and other ancillary services provided. Fees are payable by the Airline Operations of Xinjiang Airlines Group based on the scale rates published by the CAAC.

(vii) Commission expense represents commissions payable to CAAC's sales offices and other PRC airlines 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 9% on the ticket value as stipulated by the CAAC.

(viii) Interest expense represents the interest incurred on certain unsecured loans from CSAHC. The applicable interest rates are in accordance with the rates published by the People's Bank of China (See Note 15).

(ix) Rentals were paid to CSAHC under lease arrangements for certain land and buildings in the PRC. The rentals are determined based on prevailing market rates.

(x) Air catering expenses represent purchases of in-flight meals and related services from certain affiliates of CSAHC. Prices charged by these suppliers to the Airline Operations of Xinjiang Airlines Group are similar to those charged to other PRC airlines.

(xi) Repairing charges represent fees incurred by the Airline Operations of Xinjiang Airlines Group in connection with aircraft repair and maintenance services rendered by Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO"). GAMECO is a jointly controlled entity of the Company.

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

(xiii) Ground service income represents the fees receivable from certain airlines controlled by the CAAC in respect of ground services provided by the Airline Operations of Xinjiang Airlines Group in Xinjiang International Airport.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

20. RELATED PARTY TRANSACTIONS (Continued)

(xiv) Aircraft lease income represent rentals receivable in respect of short term leasing of aircraft to certain PRC airlines controlled by the CAAC.

(xv) Commission income represents commission receivable from certain PRC airlines controlled by the CAAC in connection with air tickets sold by the Airline Operations of Xinjiang Airlines Group for which the carriage was provided by such airlines. Commission is calculated based on a fixed rate ranging from 3% to 9% on the ticket value as stipulated by the CAAC.

(xvi) Aircraft lease income represents rentals receivable from the Company pursuant to a wet lease agreement in respect of a Boeing 757-200 aircraft. The wet lease rental was determined based on prevailing market rates.

Details of loans borrowed from and/or guaranteed by CSAHC and loans guaranteed by the CAAC and its affiliates are disclosed in Note 15.

Management of the Airline Operations of Xinjiang Airlines Group is 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 relevant government regulations governing such transactions.

21. RETIREMENT BENEFITS

Employees of the Airline Operations of Xinjiang Airlines Group participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Airline Operations of Xinjiang Airlines Group are located. The Airline Operations of Xinjiang Airlines Group is required to contribute to these schemes at rates ranging from 14% to 20% 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 Airline Operations of Xinjiang Airlines Group are assumed by these schemes. Contributions to the retirement schemes made by the Airline Operations of Xinjiang Airlines Group during the relevant period are as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERI ENDED 30 JUNE	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	2 RM
Amounts of contributions	7,265	7,119	13,972	6,517	16

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

22. COMMITMENTS

(i) CAPITAL COMMITMENTS

The Airline Operations of Xinjiang Airlines Group had capital commitments as follows:

	31 DECEMBER,			30 JUN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'0
Commitments in respect of aircraft and related equipment:				
- authorised and contracted for	310,787	-	-	
Other commitments:				
- authorised and contracted for	8,981	10,307	21,050	11,7
- authorised but not contracted for	233,153	164,479	3,467	
	242,134	174,786	24,517	11,7
	552,921	174,786	24,517	11,7

(ii) OPERATING LEASE COMMITMENTS

The total future minimum lease payments payable by the Airline Operations of Xinjiang Airlines Group under non-cancellable operating leases in respect of aircraft and flight equipment are payable as follows:

	31 DECEMBER,			30 JUN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'00
Payments due				
- within one year	220,398	225,424	212,165	156,73
- in the second to fifth year, inclusive	648,616	523,568	390,821	324,69
- after the fifth year	222,599	122,297	41,901	14,89
	1,091,613	871,289	644,887	496,32

Leases for aircraft and flight equipment are generally run for an initial period of between six and eight years. The rental payments for aircraft and

flight equipment are fixed during the lease period. None of the leases includes contingent rentals.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

LIQUIDITY RISK

The liquidity of the Airline Operations of Xinjiang Airlines Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due and to renew/refinance these debt obligations where necessary and, on its ability to obtain adequate external loan finance to meet its committed future capital expenditures. With the support of certain PRC banks and CSAHC, the Airline Operations of Xinjiang Airlines Group was able to renew its short term debts and refinance part of its long term debts during the relevant period. With regards to the twelve-month period ending 30 June, 2005, the Airline Operations of Xinjiang Airlines Group has planned to seek the renewals of short term debts amounting to RMB205 million and refinance part of the long term debts due in 2004 of RMB488 million through loan finance to be obtained from certain PRC banks. Based on the recent negotiations with the principal bankers of the Airline Operations of Xinjiang Airlines Group, management believes that the planned loan renewals and loan refinance will be available to the Airline Operations of Xinjiang Airlines Group.

Management has carried out a detailed review of the cash flow forecast of the Airline Operations of Xinjiang Airlines Group for the twelve-month period ending 30 June, 2005. Based on the results of such review, management has determined that adequate liquidity exists to finance the working capital, debt repayment obligations and capital expenditure requirements of the Airline Operations of Xinjiang Airlines Group during the forecasted period. In preparing the cash flow forecast, management has considered historical cash requirements of the Airline Operations of Xinjiang Airlines Group as well as other key factors, including the availability of the above-mentioned loan renewals and refinance which may impact the operations of the Airline Operations of Xinjiang Airlines Group during the next twelve-month period. Management is 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 AND ECONOMIC RISKS

The Airline Operations of Xinjiang Airlines Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risk 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 Airline Operations of Xinjiang Airlines Group has significant exposure to interest rate fluctuation as a significant portion of its loans are interest bearing at floating rates. Fluctuation in interest rates affects the results of the Airline Operations of Xinjiang Airlines Group significantly because the Airline Operations of Xinjiang Airlines Group is not able to hedge its interest rate exposure effectively. The interest rates and maturity information of the bank and other loans of the Airline Operations of Xinjiang Airlines Group are disclosed in Note 15.

FOREIGN CURRENCY RISK

The Airline Operations of Xinjiang Airlines Group has significant exposure to foreign currency as significant portion of its bank loans are denominated in foreign currencies, principally US dollars. Depreciation or appreciation of the Renminbi against foreign currencies affects the results of the Airline Operations of Xinjiang Airlines significantly because the foreign currency payments of the Airline Operations of Xinjiang Airlines Group significantly exceed its foreign currency receipts. The Airline Operations of Xinjiang Airlines 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.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

CREDIT RISKS

Substantially all of the cash and cash equivalents of the Airline Operations of Xinjiang Airlines Group are deposited with PRC financial institutions.

Prior to 2003, a significant portion of the air tickets of the Airline Operations of Xinjiang Airlines Group were 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 at 31 December, 2001 and 2002, the balance due from BSP agents amounted to approximately RMB74 million and RMB32 million respectively.

Beginning in 2003, a significant portion of the air tickets of the Airline Operations of Xinjiang Airlines Group are sold through the sale network of the Company and flight revenue uplifted by the Airline Operations of Xinjiang Airlines Group is billed and collected from the Company. As at 31 December, 2003 and 30 June, 2004, the receivable due from the Company amounted to approximately RMB38 million and RMB1 million respectively.

SELF INSURANCE RISK

The Airline Operations of Xinjiang Airlines Group maintains a limited amount of property insurance in respect of certain personal and

real property.

FAIR VALUE

Financial assets of the Airline Operations of Xinjiang Airlines Group include cash and cash equivalents, other investments, trade receivables, and other receivables and prepaid expenses. Financial liabilities of the Airline Operations of Xinjiang Airlines Group include bank and other loans, accounts payable and other payables. The Airline Operations of Xinjiang Airlines Group did not hold nor issue any financial instruments for trading purposes during the relevant period. The Airline Operations of Xinjiang Airlines Group did not have any positions in derivative contracts as at 31 December, 2001, 2002 and 2003 and 30 June, 2004.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value estimates, methods and assumptions, set forth below for the financial instruments of the Airline Operations of Xinjiang Airlines Group are made solely to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by the Airline Operations of Xinjiang Airlines Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Airline Operations of Xinjiang Airlines Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23. CONCENTRATION OF RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE (Continued)

The following summarise the major methods and assumptions used in estimating the fair values of the financial instruments of the Airline Operations of Xinjiang Airlines Group.

Long term debts

The fair values of long term debts are estimated by discounting future cash flows using current market interest rates offered to the Airline Operations of Xinjiang Airlines Group for debts with substantially the same characteristics and maturities. As at 31 December, 2001, 2002 and 2003 and 30 June, 2004, the carrying amounts and fair values of the long term debts of the Airline Operations of Xinjiang Airlines Group are as follows:

31 DECEMBER,

	2001		2002		2003	
	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000
Long term debts	2,677,999	2,847,219	2,261,657	2,365,801	2,109,261	2,130,199

Other investments

Other investments are unlisted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

Other financial instruments

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short term maturity of these instruments.

24. SUBSIDIARIES

The particulars of principal subsidiaries of the Airline Operations of Xinjiang Airlines as at 30 June, 2004 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST		ISSUED/REGISTERED CAPITAL	PRI ACT
		DIRECT %	INDIRECT %		
Xinjiang Aviation Ground Services Co., Ltd.	PRC 27 May, 2002	60	-	RMB 15,000,000	Ground
Xinjiang Civil Aviation Property Management Limited	PRC 12 December, 2002	51.8	-	RMB 185,043,676	Utilit

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

25. RECONCILIATION AND SUPPLEMENTARY COMBINED STATEMENTS OF CASH FLOWS INFORMATION

(i) Reconciliation of profit/(loss) before income tax and minority interests to cash flows from operating activities is as follows:

	YEARS ENDED 31 DECEMBER,			SIX-MONTH PERIOD ENDED 30 JUNE,	
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)	200 RMB'
Profit/(loss) before income tax and minority interests	76,731	11,778	(480,867)	(290,456)	(69,
Depreciation and amortisation	314,991	352,150	346,304	166,247	173,
Impairment loss on aircraft and other flight equipment	-	131,710	-	-	
Provision for obsolescence of inventories	-	12,007	-	-	
Deficit on revaluation of property, plant and equipment	-	-	234,835	-	
Loss on disposal of property, plant and equipment	8,581	2,219	7,943	3,893	
Interest income	(2,530)	(1,347)	(1,776)	(347)	(
Interest expense	189,165	184,018	201,415	81,352	69,
(Increase)/decrease in inventories	(14,445)	1,054	825	4,683	(12,
Decrease/(increase) in trade receivables	60,588	(20,989)	87,335	81,137	(28,
Decrease/(increase) in other receivables and prepaid expenses	23,318	(51,603)	36,973	25,960	(39,
Increase in accounts payable	23,372	20,960	1,384	15,188	34,
Decrease in sales in advance of carriage	(5,612)	(17,459)	(16,220)	(13,417)	(3,
(Decrease)/increase in other liabilities and accrued expenses	(187,570)	121,537	78,789	24,287	7,
Increase/(decrease) in provision for major overhauls	61,499	10,886	21,133	8,935	(
Cash generated from operations	548,088	756,921	518,073	107,462	131,
Interest received	2,530	1,347	1,776	347	
Interest paid	(185,925)	(194,304)	(211,701)	(83,200)	(60,
Income tax paid	(38,483)	(3,000)	(12,410)	(910)	(1,
Cash flows from operating activities	326,210	560,964	295,738	23,699	69,

(V) NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

25. RECONCILIATION AND SUPPLEMENTARY COMBINED STATEMENTS OF CASH FLOWS INFORMATION (Continued)

(ii) DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

As disclosed in Note 2, in connection with the Reorganisation and the Acquisition, certain assets that were not to be acquired by the Company but were historically associated with the Airline Operations of Xinjiang Airlines Group, were distributed to the owner of Xinjiang Airlines. The assets distributed to owner of Xinjiang Airlines amounted to approximately RMB48 million.

26. ULTIMATE HOLDING COMPANY

Management of the Airline Operations of Xinjiang Airlines consider the ultimate holding company to be CSAHC, a state-owned enterprise established in the PRC.

(VI) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Airline Operations of Xinjiang Airlines Group in respect of any period subsequent to 30 June, 2004.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

A. SUMMARY OF FINANCIAL STATEMENTS

The following consolidated balance sheets of China Southern Airlines Company Limited ("the Company") as at 31 December, 2001, 2002 and 2003 and the consolidated statements of operations, consolidated statements of changes in shareholders' equity and consolidated cash flow statements for each of the years in the three-year period ended 31 December, 2003 are derived from the audited financial statements of the Company prepared under IFRS. 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, 2003, as extracted from the Company's 2003 annual report, are set out in Part B of this Appendix.

In addition, the following consolidated balance sheet of the Company as at 30 June, 2004 and the consolidated statements of operations, consolidated statements of changes in shareholders' equity and the condensed consolidated cash flow statements for the six-month periods ended 30 June, 2003 and 2004 are derived from the unaudited interim financial reports of the Listed Group prepared under IFRS. All such financial information should be read in conjunction with the unaudited interim financial reports and accompanying notes, which are included in the Company's interim reports. The unaudited interim financial report of the Company for the six-month period ended 30 June, 2004, as extracted from the Company's 2004 interim report, are set out in Part C of this Appendix.

CONSOLIDATED BALANCE SHEETS

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	22,352,215	26,920,829	28,535,907
Construction in progress	340,063	661,352	1,629,689
Lease prepayments	357,622	201,854	348,652
Interest in associated companies	531,055	692,026	422,201
Interest in jointly controlled entities	174,338	461,962	731,323
Other investments	195,201	201,854	204,971
Lease and equipment deposits	2,265,003	2,147,038	2,932,591
Deferred expenditure	48,183	283,303	248,853
Long term receivables	11,091	12,034	6,380
TOTAL NON-CURRENT ASSETS	26,274,771	31,582,252	35,060,567
CURRENT ASSETS			
Inventories	467,018	545,700	543,777
Trade receivables	556,542	671,776	833,604
Other receivables	196,751	372,586	296,047
Prepaid expenses and other assets	340,157	244,690	247,926
Cash and cash equivalents	2,817,863	3,771,043	2,080,174
TOTAL CURRENT ASSETS	4,378,331	5,605,795	4,001,528

CONSOLIDATED BALANCE SHEETS (CONTINUED)

	31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
CURRENT LIABILITIES			
Bank and other loans	2,177,516	5,240,726	7,096,846
Obligations under finance leases	1,451,929	1,566,698	1,297,855
Amounts due to related companies	718,265	525,090	929,003
Other liabilities	678,133	646,989	1,019,811
Accounts payable	590,700	532,480	928,093
Bills payable	-	1,299,680	438,135
Sales in advance of carriage	370,546	390,531	466,087

Accrued expenses	2,013,555	2,341,454	2,527,794
Tax payable	73,464	78,145	89,954
TOTAL CURRENT LIABILITIES	8,074,108	12,621,793	14,793,578
NET CURRENT LIABILITIES	(3,695,777)	(7,015,998)	(10,792,050)
TOTAL ASSETS LESS CURRENT LIABILITIES	22,578,994	24,566,254	24,268,517
NON-CURRENT LIABILITIES AND DEFERRED ITEMS			
Bank and other loans	3,627,594	5,835,434	4,521,735
Obligations under finance leases	7,691,634	6,631,751	5,543,084
Provision for major overhauls	125,661	141,887	189,464
Deferred credits	15,072	48,095	46,554
Deferred taxation	519,577	779,234	398,305
TOTAL NON-CURRENT LIABILITIES AND DEFERRED ITEMS	11,979,538	13,436,401	10,699,142
	10,599,456	11,129,853	13,569,375
REPRESENTING:			
SHARE CAPITAL	3,374,178	3,374,178	4,374,178
RESERVES	5,847,485	6,239,029	7,521,529
SHAREHOLDERS' EQUITY	9,221,663	9,613,207	11,895,707
MINORITY INTERESTS	1,377,793	1,516,646	1,673,668
	10,599,456	11,129,853	13,569,375

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED 31 DECEMBER,			SIX-EN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000 (unaudited)
OPERATING REVENUE				
Traffic revenue	16,461,532	17,481,892	16,964,800	6,537,679
Other revenue	418,126	536,728	505,323	195,193

TOTAL OPERATING REVENUE	16,879,658	18,018,620	17,470,123	6,732,872
OPERATING EXPENSES				
Flight operations	6,905,628	6,732,543	7,070,031	3,516,885
Maintenance	2,014,579	2,333,419	2,588,613	1,218,488
Aircraft and traffic servicing	2,297,521	2,511,284	2,767,488	1,197,273
Promotion and sales	1,540,780	1,499,587	1,480,168	673,965
General and administrative	892,233	1,060,010	1,053,319	480,598
Depreciation and amortisation	1,814,974	1,839,871	2,037,971	1,016,530
Others	13,270	15,829	16,804	3,465
TOTAL OPERATING EXPENSES	15,478,985	15,992,543	17,014,394	8,107,204
OPERATING PROFIT/(LOSS)	1,400,673	2,026,077	455,729	(1,374,332)
NON-OPERATING INCOME/(EXPENSES)				
Interest income	49,878	52,618	13,061	5,842
Interest expense	(933,717)	(959,193)	(823,725)	(455,456)
Exchange gain/(loss), net	296,777	(175,451)	(164,443)	(4,774)
Share of associated companies' results	53,077	36,988	47,798	2,825
Share of jointly controlled entities' results	(4,034)	(3,352)	(39,495)	(21,654)
(Loss)/gain on sale of fixed assets	(55,889)	170,740	(22,217)	(22,679)
Others, net	(11,509)	(9,328)	21,682	(287)
TOTAL NET NON-OPERATING EXPENSES	(605,417)	(886,978)	(967,339)	(496,183)

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

	YEARS ENDED 31 DECEMBER,			SIX-EN
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000
PROFIT/(LOSS) BEFORE TAXATION AND MINORITY INTERESTS	795,256	1,139,099	(511,610)	(1,870,515

TAXATION (EXPENSE)/ CREDIT	(320,519)	(398,227)	324,277	544,992
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	474,737	740,872	(187,333)	(1,325,523
MINORITY INTERESTS	(134,512)	(165,111)	(170,934)	93,910
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	340,225	575,761	(358,267)	(1,231,613
BASIC EARNINGS/(LOSSES) PER SHARE	RMB0.10	RMB0.17	RMB(0.09)	RMB(0.37

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES	RETAINED EARNINGS
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2001	3,374,178	3,813,659	664,945	1,028,656
Profit for the year	-	-	-	340,225
Appropriations to reserves	-	-	22,229	(22,229)
At 31 December, 2001	3,374,178	3,813,659	687,174	1,346,652
At 1 January, 2002	3,374,178	3,813,659	687,174	1,346,652
Land use rights adjustment	-	(129,703)	-	12,970
Adjustments from adoption of new PRC accounting regulations	-	-	(185,540)	185,540
Dividends paid	-	-	-	(67,484)
Profit for the year	-	-	-	575,761
Appropriations to reserves	-	-	83,738	(83,738)
At 31 December, 2002	3,374,178	3,683,956	585,372	1,969,701
At 1 January, 2003	3,374,178	3,683,956	585,372	1,969,701
Issue of A shares	1,000,000	1,640,767	-	-
Loss for the year	-	-	-	(358,267)
Appropriations to reserves	-	-	24,969	(24,969)
At 31 December, 2003	4,374,178	5,324,723	610,341	1,586,465

At 1 January, 2004	4,374,178	5,324,723	610,341	1,586,465
Profit for the period (unaudited)	-	-	-	266,184
At 30 June, 2004 (unaudited)	4,374,178	5,324,723	610,341	1,852,649

CONSOLIDATED CASH FLOW STATEMENTS

	Note	YEARS ENDED 31 DE 2001 RMB'000	2002 RMB'000
NET CASH FROM OPERATING ACTIVITIES	(a)	2,223,943	3,697,544
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of fixed assets		605,385	825,197
Proceeds from sale of investments		-	68
Dividends received from associated companies		5,946	3,093
(Increase)/decrease in long term receivables		(345)	(943)
Payment of lease and equipment deposits		(2,027,063)	(1,999,233)
Refund of lease and equipment deposits		200,029	2,117,386
Capital expenditures		(1,492,126)	(6,351,030)
Purchase of investments in equity securities		(1,241)	(6,721)
Investment in associated company		(147,875)	(136,500)
Investments in jointly controlled entities		(178,372)	(295,670)
Governmental subsidy for safety related capital expenditures		-	40,240
Effect of acquisition of subsidiaries	(c)	-	(90,491)
NET CASH USED IN INVESTING ACTIVITIES		(3,035,662)	(5,894,604)
NET CASH OUTFLOWS BEFORE FINANCING ACTIVITIES		(811,719)	(2,197,060)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from A share issue, net of issuance costs		-	-
Proceeds from bank and other loans		2,123,613	6,996,780
Repayment of bank and other loans		(890,228)	(2,194,630)
Repayment of principal under finance			

lease obligations	(1,756,098)	(1,546,185)
Capital contributions received from minority shareholders	707	10,625
Dividends paid to shareholders	-	(67,484)
Dividends paid to minority shareholders	(45,867)	(48,866)
NET CASH (OUTFLOWS)/INFLOWS FROM FINANCING ACTIVITIES	(567,873)	3,150,240
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,379,592)	953,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,197,455	2,817,863
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,817,863	3,771,043

RECONCILIATION AND SUPPLEMENTARY STATEMENTS OF CASH FLOWS INFORMATION

(a) The reconciliation of profit/(loss) before taxation and minority interests to net cash from operations is as follows:

	YEARS ENDED 31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2 RM
Profit/(loss) before taxation and minority interests	795,256	1,139,099	(5
Depreciation and amortisation of fixed assets	1,802,462	1,839,293	1,9
Other amortisation	12,512	9,816	
Amortisation of deferred credits	(18,483)	(7,217)	
Share of associated companies' results	(53,077)	(36,988)	(
Share of jointly controlled entities' results	4,034	3,352	
Loss/(gain) on sale of fixed assets	55,889	(170,740)	
Interest income	(49,878)	(52,618)	(
Interest expense	933,717	959,193	8
Unrealised exchange (gain)/loss, net	(292,630)	174,978	1
(Increase)/decrease in inventories	(2,033)	(76,472)	
Decrease/(increase) in trade receivables	232,228	(110,749)	(1
Decrease/(increase) in other receivables	42,938	(166,004)	
(Increase)/decrease in prepaid expenses and other assets	(136,600)	123,924	
Increase/(decrease) in amounts due to related companies	98,040	(193,175)	4
(Decrease)/increase in accounts payable	(167,599)	(61,843)	3
Increase/(decrease) in bills payable	-	1,299,680	(8
Increase in sales in advance of carriage	31,036	19,985	
(Decrease)/increase in accrued expenses	(132,121)	86,215	2

Increase/(decrease) in other liabilities	70,254	(33,032)	3
(Decrease)/increase in provision for major overhauls	(40,422)	16,226	
Cash generated from operations	3,185,523	4,762,923	3,0
Interest received	49,878	52,618	
Interest paid	(970,734)	(1,051,027)	(9
Income tax paid	(40,724)	(66,970)	(
Net cash from operating activities	2,223,943	3,697,544	2,1

(b) DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During 2002, the Listed Group assumed from Zhongyuan Airlines debts totalling RMB964,736,000 in partial satisfaction of the consideration payable for acquisition of five Boeing 737-300/37K aircraft and other assets from Zhongyuan Airlines.

(c) EFFECT OF ACQUISITION OF SUBSIDIARIES

	YEARS ENDED 31 DECEMBER,		
	2001 RMB'000	2002 RMB'000	2 RM
Net assets acquired:			
Fixed assets	-	96,636	
Cash and cash equivalents	-	17,355	
Trade receivables and other current assets	-	20,681	
	-	134,672	
Accounts payable	-	3,623	
Accrued expenses and other liabilities	-	11,220	
	-	14,843	
Net assets value	-	119,829	
Consideration paid	-	107,846	
Cash and cash equivalents acquired	-	17,355	
Net cash outflow from acquisition			

of subsidiaries		-	90,491

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	SIX-MONT 3
	2003 RMB'000 (unaudited)
Net cash from operating activities	1,199,731
Net cash used in investing activities	(1,886,023)
Net cash outflows before financing activities	(686,292)
Net cash (outflows)/inflows from financing activities	(803,404)
(Decrease)/increase in cash and cash equivalents	(1,489,696)
Cash and cash equivalents as at 1 January,	3,771,043
Cash and cash equivalents as at 30 June,	2,281,347

B. FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 RMB'000
Operating revenue:		
Traffic revenue		16,964,800
Other revenue		505,323
Total operating revenue	3	17,470,123

Operating expenses:		
Flight operations		7,070,031
Maintenance		2,588,613
Aircraft and traffic servicing		2,767,488
Promotion and sales		1,480,168
General and administrative		1,053,319
Depreciation and amortisation		2,037,971
Other		16,804
Total operating expenses	4	17,014,394
Operating profit		455,729
Non-operating income/(expenses):		
Share of associated companies' results		47,798
Share of jointly controlled entities' results	14	(39,495)
(Loss)/gain on sale of fixed assets	5	(22,217)
Interest income		13,061
Interest expense	4	(823,725)
Exchange loss, net		(164,443)
Other, net		21,682
Total net non-operating expenses		(967,339)
(Loss)/profit before taxation and minority interests	4	(511,610)
Taxation credit/(expense)	7	324,277
(Loss)/profit before minority interests		(187,333)
Minority interests		(170,934)
(Loss)/profit attributable to shareholders		(358,267)
Basic (loss)/earnings per share	9	RMB(0.09)

The notes on pages 172 to 223 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 RMB'000

	----	----------
NON-CURRENT ASSETS		
Fixed assets	10	28,535,907
Construction in progress	11	1,629,689
Lease prepayments		348,652
Interest in associated companies	13	422,201
Interest in jointly controlled companies	14	731,323
Other investments		204,971
Lease and equipment deposits		2,932,591
Deferred expenditure	15	248,853
Long-term receivables		6,380
		35,060,567
CURRENT ASSETS		
Inventories	17	543,777
Trade receivables	18	833,604
Other receivables		296,047
Prepaid expenses and other assets		247,926
Cash and cash equivalents	20	2,080,174
		4,001,528
CURRENT LIABILITIES		
Bank and other loans	21	7,096,846
Obligations under finance leases	22	1,297,855
Amounts due to related companies	19	929,003
Other liabilities		1,019,811
Accounts payable	23	928,093
Bills payable		438,135
Sales in advance of carriage		466,087
Accrued expenses		2,527,794
Taxes payable		89,954
		14,793,578
NET CURRENT LIABILITIES		(10,792,050)
TOTAL ASSETS LESS CURRENT LIABILITIES		24,268,517

The notes on pages 172 to 223 form part of these financial statements.

CONSOLIDATED BALANCE SHEET (Cont'd)
As at 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 RMB'000
LONG TERM LIABILITIES AND DEFERRED ITEMS		
Bank and other loans	21	4,521,735
Obligations under finance leases	22	5,543,084
Provision for major overhauls	24	189,464
Deferred credits		46,554
Deferred taxation	16	398,305
		10,699,142
		13,569,375
REPRESENTING:		
SHARE CAPITAL	25	4,374,178
RESERVES	26	7,521,529
SHAREHOLDERS' EQUITY		11,895,707
MINORITY INTERESTS		1,673,668
		13,569,375

Approved and authorised for issue by the board of directors on 23 April, 2004

YAN ZHI QING	WANG CHANG SHUN	XU JIE BO
Director	Director	Director

The notes on pages 172 to 223 form part of these financial statements.

BALANCE SHEET
As at 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 RMB'000
NON-CURRENT ASSETS		
Fixed assets	10	22,610,251
Construction in progress	11	1,532,462
Lease prepayments		116,276

Interest in subsidiaries	12	1,445,831
Interest in associated companies	13	287,235
Interest in jointly controlled entities	14	563,736
Other investments		106,548
Lease and equipment deposits		2,228,754
Deferred expenditure	15	240,514
		29,131,607
CURRENT ASSETS		
Inventories	17	213,219
Trade receivables	18	683,206
Other receivables		222,438
Prepaid expenses and other assets		181,856
Cash and cash equivalents	20	1,404,874
		2,705,593
CURRENT LIABILITIES		
Bank and other loans	21	5,958,968
Obligations under finance leases	22	1,297,855
Amounts due to related companies	19	870,682
Other liabilities		854,057
Accounts payable	23	745,888
Bills payable		438,135
Sales in advance of carriage		405,851
Accrued expenses		1,628,072
Tax payable		48,142
		12,247,650
NET CURRENT LIABILITIES		(9,542,057)
TOTAL ASSETS LESS CURRENT LIABILITIES		19,589,550

The notes on pages 172 to 223 form part of these financial statements.

BALANCE SHEET (Cont'd)
As at 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 RMB'000	20 RMB

NON-CURRENT LIABILITIES AND DEFERRED ITEMS			
Bank and other loans	21	3,670,499	4,62
Obligations under finance leases	22	5,543,084	6,63
Provision for major overhauls	24	130,992	6
Deferred credits		6,317	
Deferred taxation	16	89,708	50
		9,440,600	11,83
NET ASSETS		10,148,950	8,08
REPRESENTING:			
SHARE CAPITAL	25	4,374,178	3,37
RESERVES	26	5,774,772	4,71
SHAREHOLDERS' EQUITY		10,148,950	8,08

Approved and authorised for issue by the board of directors on 23 April, 2004

YAN ZHI QING	WANG CHANG SHUN	XU JIE BO
Director	Director	Director

The notes on pages 172 to 223 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December, 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	SHARE CAPITAL RMB'000	SHARE PREMIUM RMB'000	OTHER RESERVES RMB'000	RETAINED EARNINGS RMB'000
At 1 January, 2002	3,374,178	3,813,659	687,174	1,346,652
Land use rights adjustment (Note 26 (f))	-	(129,703)	-	12,970
Adjustments from adoption of new PRC accounting regulations (Note 26 (c))	-	-	(185,540)	185,540
Dividend paid (Note 8)				(67,484)
Profit for the year	-	-	-	575,761
Appropriations to reserves	-	-	83,738	(83,738)
At 31 December, 2002	3,374,178	3,683,956	585,372	1,969,701

At 1 January, 2003	3,374,178	3,683,956	585,372	1,969,701
Issue of A shares (Note 25)	1,000,000	1,640,767	-	-
Loss for the year	-	-	-	(358,267)
Appropriations to reserves	-	-	24,969	(24,969)
At 31 December, 2003	4,374,178	5,324,723	610,341	1,586,465

The notes on pages 172 to 223 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2003
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

	Note	2003 RMB'000
Cash inflows from operations	33 (a)	3,074,718
Interest received		13,061
Interest paid		(923,901)
Income tax paid		(35,129)
Net cash inflows from operating activities		2,128,749
Investing activities:		
Proceeds from sale of fixed assets		57,077
Proceeds from sale of investments		-
Dividends received from associated companies		-
Decrease/(increase) in long term receivables		5,654
Payment of lease and equipment deposits		(1,851,726)
Refund of lease and equipment deposits		1,066,086
Capital expenditures		(4,706,740)
Purchase of investments in equity securities		(1,065)
Investment in associated company		-
Investments in jointly controlled entities		(2,999)
Governmental subsidy for safety related capital expenditures		-
Effect of acquisition of subsidiaries	33 (c)	-
Net cash used in investing activities		(5,433,713)
Net cash outflows before financing activities		(3,304,964)
Financing activities:		
Proceeds from A share issue, net of issuance costs		2,640,767

Proceeds from bank and other loans	8,913,992
Repayment of bank and other loans	(8,371,362)
Repayment of principal under finance lease obligations	(1,555,390)
Capital contribution received from minority shareholders	1,050
Dividends paid to shareholders	-
Dividends paid to minority shareholders	(14,962)
Net cash inflows from financing activities	1,614,095
(Decrease)/Increase in cash and cash equivalents	(1,690,869)
Cash and cash equivalents at beginning of year	3,771,043
Cash and cash equivalents at end of year	2,080,174

The notes on pages 172 to 223 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 subsidiary companies (collectively 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 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 and American Depositary Shares ("ADS") (each ADS representing 50 H Shares) are 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 which are listed on the Shanghai Stock Exchange.

2 PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS includes International Accounting Standards ("IAS") and related interpretations.

(b) BASIS OF PREPARATION

The financial statements of the Group and the Company are prepared on the historical cost basis as modified by the revaluation of certain fixed assets. The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous year.

(c) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group include the financial statements of the Company and all of its subsidiaries made up to 31 December each year. Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(c) BASIS OF CONSOLIDATION (cont'd)

The results of subsidiaries are included in the consolidated profit and loss account and the share attributable to minority shareholders is deducted from or added to the consolidated profit after taxation. Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contribution and reserves attributable to the minority shareholders. Thereafter, all further losses are assumed by the Company.

All significant intercompany balances and transactions have been eliminated on consolidation.

(d) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at cost, 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 profit and loss account over the period of the borrowings on an effective interest basis.

(e) INVESTMENTS

(i) Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are stated at cost less impairment losses (refer to accounting

policy n).

(ii) Investments in associated companies and jointly controlled entities

An associated company is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual agreement between the Group or the Company and other parties, where the contractual agreement establishes the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

The consolidated profit and loss account includes the Group's share of the results of its associated companies and jointly controlled entities for the year. In the consolidated balance sheet, the investments in associated companies and jointly controlled entities are stated at the Group's attributable share of net assets. When the Group's share of losses exceeds the carrying amount of the associated company or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated company or jointly controlled entity.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) INVESTMENTS (cont'd)

The results of associated companies and jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable, providing such dividends are in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before 31 December each year. In the Company's balance sheet, investments in associated companies and jointly controlled entities are stated at cost, less impairment losses (refer to accounting policy n).

(iii) Other investments

Other investments are stated at cost less impairment losses (refer to accounting policy n). 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.

(f) FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost or revalued amount less accumulated depreciation and impairment losses (refer to accounting policy n). 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.

Depreciation is provided to write off the cost, or revalued amount where appropriate, of the fixed assets over their estimated useful lives on a straight line basis, after taking into account their estimated residual values, as follows:

	DEPRECIABLE LIFE	RESIDUA
Buildings	15 to 40 years	Ni
Owned & leased aircraft	8 to 15 years	28.7
Other flight equipment		
- Jet engines	8 to 15 years	
- Others, including rotable spares	8 to 15 years	Ni
Machinery and equipment	5 to 10 years	
Vehicles	6 years	

No depreciation is provided in respect of construction in progress.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) LEASED ASSETS

Flight equipment under finance leases 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, and is amortised on a straight line basis over the shorter of the lease term or estimated useful life of the asset to residual value. In cases where title to the asset will be acquired by the Group at the end of the lease, the asset is amortised on a straight line basis over the estimated useful life of the asset to its residual value.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases. Interest charges are included in the profit and loss account to provide a constant periodic rate of charge over the lease term.

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

Operating lease payments are charged to the profit and loss account on a straight line basis over the terms of the related leases.

(h) 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 fixed assets 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.

(i) 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 (Note 26).

(j) 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 is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less impairment losses. Impairment losses are established based on evaluation of the recoverability of these accounts at the balance sheet date.

(l) 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.

(m) 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.

(n) IMPAIRMENT LOSS

The carrying amounts of the Group's and the Company's assets, other than inventories (refer to accounting policy j) and deferred tax assets (refer to accounting policy u) 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 profit and loss account.

The Group and the Company assess 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.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) 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.

(p) REVENUE RECOGNITION

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 and contributions to the CAAC Infrastructure Development Fund.

Interest income is recognised as it accrues unless collectability is

in doubt. Dividend income is recognised when the Group's right to receive the dividend is established.

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

(q) 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.

(r) 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 profit and loss account 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 scheduled overhauls required to be performed on the related aircraft prior to their return to the lessors.

(s) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange prevailing on the transaction dates.

Foreign currency monetary balances at the balance sheet date are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at that date. Exchange differences are dealt with in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(t) BORROWING COSTS

Borrowing costs are expensed in the profit and loss account 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.

(u) 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.

(v) RETIREMENT BENEFITS

Contributions to retirement schemes and additional retirement benefits paid to retired employees are charged to the profit and loss account 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) 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.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(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 entities.

(z) SEGMENTAL REPORTING

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.

(aa) USE OF ESTIMATES

The preparation of the financial statements of the Group and the Company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

3 TURNOVER

Turnover comprises revenues from airline and airline-related business and is stated net of sales tax and contributions to the CAAC Infrastructure Development Fund. An analysis of turnover is as follows:

	2003 RMB'000	R
Traffic revenue		
Passenger	15,009,885	15
Cargo and mail	1,954,915	1
	16,964,800	17
Other operating revenue		
Commission income	140,180	
General aviation income	40,309	
Ground services income	99,130	
Air catering income	30,756	
Net income from lease arrangements (Note 10)	69,121	
Rental income	40,307	
Aircraft lease income	-	

Other	85,520	
	505,323	
	17,470,123	18

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% (2002: 3%) of traffic revenue, except for the period from 1 May, 2003 to 31 December, 2003 during which passenger revenue was exempted from sales tax. All inbound international and Hong Kong regional flights are exempted from sales tax.
Other operating revenue	3% (2002: 3%) of commission income, general aviation income and ground services income, and 3% to 5% (2002: 3% to 5%) of other operating revenue.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
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3 TURNOVER (cont'd)

Sales tax incurred during the year ended 31 December, 2003, netted off against revenue, amounted to RMB205,925,000 (2002: RMB557,784,000). In addition, the Group is required to pay contributions to the CAAC Infrastructure Development Fund which are calculated at the rates of 5% and 2%, respectively (2002: 5% and 2%, respectively) of the domestic and international/Hong Kong regional traffic revenue, except for the period from 1 May, 2003 to 31 December, 2003 during which the Group was exempted from paying the contributions. Contributions to the CAAC Infrastructure Development Fund payable by the Group for the year ended 31 December, 2003 totalled RMB250,802,000 (2002: RMB798,386,000).

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, 2003, the fuel surcharge revenue of the Group totalled approximately RMB740 million (2002: RMB554 million).

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4 (LOSS)/PROFIT BEFORE TAXATION AND MINORITY INTERESTS

	2003 RMB'000	
(Loss)/profit before taxation and minority interests is arrived at after charging:		
Operating expenses		
Jet fuel	3,866,932	
Aircraft maintenance	2,376,635	
Routes	4,363,277	
Depreciation		
- owned assets	1,502,013	
- assets held under finance leases	495,869	
Amortisation of deferred expenditure	40,089	
Operating lease charges		
- aircraft and other flight equipment	1,536,466	
- buildings	135,528	
Staff costs		
- salaries, wages and welfare	1,496,191	
- contributions to retirement schemes	150,447	
Office and administration	470,565	
Auditors' remuneration	8,200	
Other	572,182	
	17,014,394	1
Interest expense		
Interest on bank and other loans wholly repayable within five years	288,293	
Interest on other loans	176,026	
Finance charges on obligations under finance leases	442,483	
Less: borrowing costs capitalised (Note)	(83,077)	
Net interest expense	823,725	
and after crediting:		
Amortisation of gains on sale and leaseback transactions	-	
Dividend income from unlisted investments	17,220	

Note: The borrowing costs have been capitalised at rates ranging 1.62% to 5.46% per annum (2002: 5.70%).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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4 (LOSS)/PROFIT BEFORE TAXATION AND MINORITY INTERESTS (cont'd)

The (loss)/profit attributable to shareholders for the year ended 31 December, 2003 includes a loss of RMB580,959,000 (2002: profit of RMB 381,305,000) which has been dealt with in the financial statements of the Company.

5 (LOSS)/GAIN ON SALE OF FIXED ASSETS

(Loss)/gain on sale of fixed assets represents:

	2003 RMB'000
Aircraft (Note)	(20,405)
Staff quarters (Note 28)	-
Flight equipment and other fixed assets	(1,812)
	(22,217)

Note:

During 2003, the Group incurred a loss of RMB20,405,000 on early retirement of two old Boeing 737-200 aircraft.

Pursuant to certain sale and leaseback arrangements, the Group sold four Boeing 757-200 aircraft during 2002 to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of eight to nine years. For the year ended 31 December, 2002, the Group recognised a profit of RMB199,394,000, being the excess of the sale proceeds which approximated the aircraft's fair value on the date of disposal, over the aircraft's net book value and related disposal costs.

6 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2003 RMB'000	200 RMB'
Fees	203	1
Salaries, allowances and benefits in kind	1,244	9
Retirement benefits	98	
Bonuses	943	2
	2,488	1,4

	=====	===

Included in the above were fees of RMB203,000 (2002: RMB103,000) paid to non-executive independent directors during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
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6 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

(a) DIRECTORS' AND SUPERVISORS' EMOLUMENTS (cont'd)

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

	2003 NUMBER	200 Numb
	------	----
Nil to HK$1,000,000 (RMB1,066,000 equivalent)	18	14
	===	===

(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:

	2003 RMB'000	200 RMB'
	-------	----
Salaries, allowances and benefits in kind	1,701	1,4
Retirement benefits	25	
	-----	---
	1,726	1,5
	=====	===

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:

	2003 NUMBER	20 Num
	------	---

Directors and supervisors	-
Employees	5
	5
Nil to HK$1,000,000 (RMB1,066,000 equivalent)	5

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
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7 TAXATION (CREDIT)/EXPENSE

Taxation (credit)/expense in the consolidated profit and loss account comprises:

	2003 RMB'000
PRC income tax	46,938
Share of taxation of associated companies	3,342
Share of taxation of jointly controlled entities	6,372
	56,652
Deferred taxation (Note 16)	
- current year	11,208
- adjustment for change in income tax rate	(392,137)
Taxation (credit)/expense	(324,277)

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 to 15% from 33% beginning from that date.

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 RMB507,077,000 was reduced by RMB392,137,000 and a net deferred tax credit of RMB392,137,000 was recognised for such reduction in income tax rate in the consolidated profit and loss account 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 PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for the year (2002: nil).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
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7 TAXATION (CREDIT)/EXPENSE (cont'd)

Actual taxation amount in the consolidated profit and loss account differed from the amount computed by applying the PRC income tax rate of 15% to consolidated (loss)/profit before taxation and minority interests as a result of the following:

	2003 RMB'000
Consolidated (loss)/profit before taxation and minority interests	(511,610)
Expected PRC income tax (credit)/expense at 15% (2002: 33%)	(76,742)
Adjustments:	
Gains on sale and leaseback transactions and their amortisation	-
Effect of change in income tax rate	(392,137)
Rate differential on subsidiaries	-
Non-deductible expenses	79,907
Other, net	64,695
	(324,277)

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.

For the year ended 31 December, 2003, the PRC withholding tax payable by the Group in respect of the leases executed on or after 1 September, 1999 of RMB7,706,000 (2002: RMB14,305,000) has been included as part of the operating lease charges for the year.

8 DIVIDENDS

No interim dividend was paid during the year ended 31 December, 2003 (2002: Nil).

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December, 2003.

A final dividend of RMB0.02 per share totalling RMB67,484,000 in respect of the year ended 31 December, 2001 was approved and paid during 2002.

9 BASIC (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the consolidated loss attributable to shareholders of RMB358,267,000 (2002: profit of RMB575,761,000) and the weighted average number of shares in issue during the year of 3,831,712,000 (2002: 3,374,178,000).

The amount of diluted (loss)/earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both years.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

10 FIXED ASSETS

	BUILDINGS RMB'000	AIRCRAFT OWNED RMB'000	AIRCRAFT HELD UNDER FINANCE LEASES RMB'000	OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000
(a) THE GROUP					
Cost or valuation:					
At 1 January, 2003	3,160,073	13,510,717	11,459,978	6,283,470	1,782,400
Exchange adjustments	16,572	-	-	-	36,851
Reclassification on exercise of purchase options	-	997,403	(997,403)	-	-
Additions	11,382	2,818,475	-	558,594	137,307
Transferred from construction in progress	133,839	-	-	-	12,255
Disposals	(34,273)	(104,235)	-	-	(38,540)
At 31 December, 2003	3,287,593	17,222,360	10,462,575	6,842,064	1,930,273
Representing:					
Cost	2,932,399	10,993,419	6,123,034	4,667,887	1,446,235
Valuation - 1996	355,194	6,228,941	4,339,541	2,174,177	484,038

	3,287,593	17,222,360	10,462,575	6,842,064	1,930,273
Accumulated depreciation:					
At 1 January, 2003	476,867	2,145,849	2,499,495	3,177,253	976,345
Exchange adjustments	2,892	-	-	-	30,129
Reclassification on exercise of purchase options	-	389,958	(389,958)	-	-
Charge for the year	128,776	710,509	495,869	467,202	195,526
Written back on disposal	(14,740)	(54,555)	-	-	(28,459)
At 31 December, 2003	593,795	3,191,761	2,605,406	3,644,455	1,173,541
Net book value:					
At 31 December, 2003	2,693,798	14,030,599	7,857,169	3,197,609	756,732
At 31 December, 2002	2,683,206	11,364,868	8,960,483	3,106,217	806,055

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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10 FIXED ASSETS (Cont'd)

	BUILDINGS RMB'000	AIRCRAFT		OTHER FLIGHT EQUIPMENT, INCLUDING ROTABLE SPARES RMB'000	MACHINERY, EQUIPMENT AND VEHICLES RMB'000
		OWNED RMB'000	HELD UNDER FINANCE LEASES RMB'000		
(b) THE COMPANY					
Cost or valuation:					
At 1 January, 2003	1,036,612	9,053,359	11,459,978	3,941,880	895,562
Reclassification on exercise of purchase options	-	997,403	(997,403)	-	-
Additions	2,228	2,818,475	-	455,763	87,555
Additions through transfer of fixed assets upon dissolution of subsidiary	514,197	-	-	998,215	217,272
Transferred from construction in progress	91,018	-	-	-	8,228
Disposals	(347)	-	-	-	(20,178)

At 31 December, 2003	1,643,708	12,869,237	10,462,575	5,395,858	1,188,439
Representing:					
Cost	1,449,476	8,255,920	6,123,034	3,570,949	924,558
Valuation - 1996	194,232	4,613,317	4,339,541	1,824,909	263,881
	1,643,708	12,869,237	10,462,575	5,395,858	1,188,439
Accumulated depreciation:					
At 1 January, 2003	176,841	1,327,363	2,499,495	2,387,634	465,150
Reclassification on exercise of purchase options	-	389,958	(389,958)	-	-
Charge for the year	72,980	514,000	495,869	373,896	116,207
Additions through transfer of fixed assets upon dissolution of subsidiary	73,772	-	-	311,097	153,358
Written back on disposal	(23)	-	-	-	(18,073)
At 31 December, 2003	323,570	2,231,321	2,605,406	3,072,627	716,642
Net book value:					
At 31 December, 2003	1,320,138	10,637,916	7,857,169	2,323,231	471,797
At 31 December, 2002	859,771	7,725,996	8,960,483	1,554,246	430,412

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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10 FIXED ASSETS (Cont'd)

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 a period 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 Group gives appropriate notice of termination. In this connection, rental payments totalling RMB15,224,000 (2002: RMB15,224,000) were paid to CSAHC during 2003 in respect of these leases.

During the year, 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 RMB34,175,000 was received by the Company during 2003 in respect of the leases. As at 31 December, 2003, the cost and accumulated depreciation of the relevant fixed assets totalled RMB787,432,000 and RMB462,281,000 respectively. As at 31 December, 2003, the Company's rental receivable in respect of the leases due in 2004 amounted to RMB34,175,000.

In compliance with the PRC rules and regulations governing initial public offering of shares by PRC joint stock limited companies, the fixed assets 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 fixed assets 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 fixed assets held by the Group as at 31 December, 2000, the carrying amounts of fixed assets did not differ materially from their respective fair value.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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10 FIXED ASSETS (Cont'd)

The effect of the above revaluation was to increase future annual depreciation charges of the Group by approximately RMB33,000,000 (2002: RMB33,000,000). Had the fixed assets of the Group and the Company been stated at cost, that is, the effect of the revaluation was excluded, the net book values of fixed assets of the Group and the Company as at 31 December, 2003 would have been approximately RMB28,522,787,000 and RMB22,793,781,000 respectively (2002: RMB26,874,709,000 and RMB19,440,211,000 respectively), made up as follows:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Buildings	3,109,988	2,982,468	1,610,075	1,002,979
Aircraft				
- owned	18,344,930	14,694,256	13,657,746	9,841,868

- held under finance leases	10,942,131	11,939,534	10,942,131	11,939,534
Flight equipment and others	9,634,146	8,927,679	6,910,210	5,163,355
	42,031,195	38,543,937	33,120,162	27,947,736
Less: Accumulated depreciation	13,508,408	11,669,228	10,326,381	8,507,525
	28,522,787	26,874,709	22,793,781	19,440,211

As at 31 December, 2003, certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB14,575,906,000 and RMB12,795,867,000 respectively (2002: RMB14,782,559,000 and RMB12,893,592,000, respectively) were mortgaged under certain loan and lease agreements (see Notes 21 and 22).

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. As agreed, 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. As long as 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 fixed assets. As at 31 December, 2003, the net present value of the lease commitments and the corresponding defeased deposits and debt securities amounted to RMB2,409,252,000 (2002: RMB1,322,843,000). As a result of the Arrangements, the Company received net cash benefits of RMB51,682,000 and RMB69,121,000 in 2002 and 2003 respectively which have been recognised as income for the respective years.

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11 CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred on the construction of buildings and other operating facilities not yet substantially completed at 31 December, 2003, details as follows:

	2003	2002

	RMB'000	RMB'000
THE COMPANY		
Guangzhou new airport base	1,378,063	432,580
Hubei catering building	27,911	23,407
Zhengzhou ticket selling office	22,016	21,988
Material and engineering system	21,066	21,063
Henan office building	13,986	3,717
Guangzhou ticket selling office	-	45,988
Other	69,420	66,768
	1,532,462	615,511
SUBSIDIARIES		
Guangzhou new cargo centre	67,697	-
Fuzhou Chang Le airport facilities	14,244	14,839
Other	15,286	31,002
	97,227	45,841
	1,629,689	661,352

12 INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2003 RMB'000	2002 RMB'000
Unlisted shares/capital contributions, at cost	977,540	1,086,793
Amounts due from subsidiaries	468,291	319,217
	1,445,831	1,406,010

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12 INTEREST IN SUBSIDIARIES (Cont'd)

In March 2003, China Southern Airlines (Group) Shenzhen Co., a wholly owned subsidiary of the Company was dissolved in March 2003. Its operation and respective assets and liabilities were transferred to the Company since then. No material gains or losses were incurred by the Group on

dissolution of the subsidiary.

Details of the Company's subsidiaries are set out in Note 36.

13 INTEREST IN ASSOCIATED COMPANIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Share of attributable net assets other than goodwill	422,201	692,026	-	-
Unlisted capital contributions, at cost	-	-	348,502	428,840
Impairment loss for investment in associated company	-	-	(61,267)	(61,267)
	422,201	692,026	287,235	367,573

Details of the Group's associated companies are set out in Note 37.

14 INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Share of attributable net assets other than goodwill	731,323	461,962	-	-
Unlisted capital contributions, at cost	-	-	563,736	474,042
	731,323	461,962	563,736	474,042

Details of the Company's jointly controlled entities are set out in Note 37.

14 INTEREST IN JOINTLY CONTROLLED ENTITIES (Cont'd)

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

	2003 RMB'000	2002 RMB'000
Non-current assets	606,185	290,088
Current assets	618,799	326,712
Non-current liabilities	(235,718)	-
Current liabilities	(257,943)	(154,838)
Net assets	731,323	461,962
Income	486,049	-
Expenses	(525,544)	(3,352)
Net loss	(39,495)	(3,352)

15 DEFERRED EXPENDITURE

Deferred expenditure mainly comprises custom duties and other direct costs incurred in respect of the Group's operating leased aircraft upon the inception of the respective leases, and lump sum housing benefits provided to eligible employees of the Group:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Custom duties and other direct costs	60,135	257,509	36,551	168,265
Lump sum housing benefits (Note 28)	260,000	260,000	260,000	260,000
	320,135	517,509	296,551	428,265
Less: Accumulated amortisation	71,282	234,206	56,037	155,629
	248,853	283,303	240,514	272,636

16 DEFERRED TAXATION

Movements in net deferred tax liabilities are as follows:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'0
Balance at 1 January,	(779,234)	(519,577)	(507,077)	(293,9
Land use rights adjustment (Note 26 (f))	–	57,495	–	57,4
Transferred from profit and loss account (Note 7)				
– current year	(11,208)	(317,152)	25,232	(270,5
– adjustment for change in income tax rate	392,137	–	392,137	
Balance at 31 December,	(398,305)	(779,234)	(89,708)	(507,0

The net deferred tax liabilities at 31 December, 2003 were made up of the following taxation effects:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2 RMB
Deferred tax assets:				
Tax losses	222,936	149,338	222,936	14
Repairs and maintenance accruals	87,608	63,896	93,097	6
Repair charges capitalised	261,312	319,697	199,292	25
Accrued expenses	18,883	311,893	18,883	31
Other	8,989	129,423	10,829	14
Total deferred tax assets	599,728	974,247	545,037	93
Deferred tax liabilities:				
Undistributed profits of subsidiaries	–	254,210	–	25
Repairs and maintenance accruals	80,545	78,083	–	
Depreciation of fixed assets	847,781	1,403,278	590,543	1,18
Other	69,707	17,910	44,202	
Total deferred tax liabilities	998,033	1,753,481	634,745	1,44
Net deferred tax liabilities	(398,305)	(779,234)	(89,708)	(50

17 INVENTORIES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Expendable spare parts and maintenance materials	486,290	489,554	182,742	106,376
Other supplies	57,487	56,146	30,477	11,758
	543,777	545,700	213,219	118,134

No significant amount of inventories was carried at net realisable value at 31 December, 2002 and 2003.

18 TRADE RECEIVABLES

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. An ageing analysis of trade receivables, net of impairment losses, is set out below:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	20 RMB'
Within 1 month	589,080	576,789	445,980	394,
More than 1 month but less than 3 months	235,828	88,133	228,530	62,
More than 3 months but less than 12 months	8,696	6,854	8,696	7,
	833,604	671,776	683,206	464,

As at 31 December, 2003, the Group and the Company had an amount due from a fellow subsidiary of RMB54,161,000 (2002: RMB89,550,000) which was included in trade receivables.

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

19 AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies, which represent balances with CSAHC and its affiliates, and the Group's associated companies and jointly controlled entities, are unsecured, interest free and repayable within one year. The balance at 31 December, 2002 also included balances with the CAAC and its affiliates.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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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 associated company 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, 2003 were simultaneously placed with several designated major PRC banks by SA Finance. As at 31 December, 2003, the Group's and the Company's deposits with SA Finance amounted to RMB365,906,000 and RMB346,357,000 respectively (2002: RMB 900,979,000 and RMB877,449,000 respectively).

21 BANK AND OTHER LOANS

	THE GROUP		THE COMPA
	2003 RMB'000	2002 RMB'000	2003 RMB'000
Bank loans due:			
Within one year	7,096,846	5,240,726	5,958,968
In the second year	646,492	839,036	401,466
In the third to fifth year, inclusive	1,223,710	3,730,849	826,417
After the fifth year	2,648,533	1,262,549	2,442,616
	11,615,581	11,073,160	9,629,467
Other loans due:			
In the second year	3,000	3,000	-
	11,618,581	11,076,160	9,629,467
Portion classified as current liabilities	(7,096,846)	(5,240,726)	(5,958,968)
	4,521,735	5,835,434	3,670,499

As at 31 December, 2003, bank loans of the Group and the Company totalling RMB4,902,118,000 and RMB3,822,826,000 respectively (2002: RMB 4,117,778,000 and RMB2,783,418,000 respectively) were secured by mortgages over certain of the Group's and the Company's aircraft.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

21 BANK AND OTHER LOANS (cont'd)

As at 31 December, 2003, certain bank loans were guaranteed by the following parties:

	THE GROUP		THE COMPAN	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	R
Export-Import Bank of the United States	2,207,393	2,680,801	1,236,160	1,
Bank of China	357,193	604,010	262,231	
China Construction Bank	–	76,134	–	
CSAHC	359,300	3,340,118	228,800	2,
Guangzhou Baiyun International Airport Company Limited	63,000	–	–	
Shenzhen Yingshun Investment Development Company Limited	21,000	–	–	
SA Finance	10,052	561,531	–	
	3,017,938	7,262,594	1,727,191	4,

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

21 BANK AND OTHER LOANS (cont'd)

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

		THE GROUP	
	INTEREST RATE AND FINAL MATURITY	2003 RMB'000	2002 RMB'000
RMB denominated loans:			
Loans for construction projects	Floating interest rates ranging from 4.94% to 5.25% per annum as at 31 December, 2003, with maturities through 2009	12,357	893,838
	Non-interest bearing loan from a municipal government authority, repayable in 2005	3,000	3,000
Loans for purchase of aircraft	Floating interest rate of 5.49% per annum as at 31		

	December, 2003, with maturities through 2004	63,500	2,310,268
U.S. dollar denominated loans:			
Loans for purchase of aircraft	Fixed interest rates ranging from 5.00% to 8.33% per annum as at 31 December, 2003, with maturities through 2011	2,612,687	3,426,038
	Floating interest rates ranging from 1.48% to 1.50% per annum as at 31 December, 2003, with maturities through 2013	2,505,134	-
Loan for purchase of flight equipment	Fixed interest rate of 8.35% per annum as at 31 December, 2003, with maturity in 2004	13,097	20,090
		5,209,775	6,653,234
Less: Loans due within one year classified as current liabilities		(688,040)	(817,800)
		4,521,735	5,835,434

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

21 BANK AND OTHER LOANS (cont'd)

As at 31 December, 2003, bank and other loans of the Group and the Company included short-term bank loans totalling RMB6,408,806,000 and RMB5,577,841,000 respectively (2002: RMB4,422,926,000 and RMB 2,914,158,000 respectively). On such date, the Group's and the Company's weighted average interest rate on short-term borrowings were 1.76% and 1.65% respectively (2002: 3.11% and 2.66% respectively).

As at 31 December, 2003, the Group had banking facilities with several PRC commercial banks for providing loan finance up to an approximate amount of RMB9,860 million (2002: RMB12,360 million). As at 31 December, 2003, an approximate amount of RMB4,412 million (2002: RMB7,258 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 2004 to 2009. As at 31 December, 2003, future payments under these finance leases, which were 74% and 26% respectively (2002: 78% and 22% respectively) denominated in United States dollars and Japanese yen, are as follows:

	2003	2002

	PAYMENTS RMB'000	INTEREST RMB'000	OBLIGATIONS RMB'000	Payments RMB'000	Interest RMB'000	O
THE GROUP AND THE COMPANY						
Balance due:						
Within one year	1,648,141	350,286	1,297,855	2,006,392	439,694	
In the second year	1,356,614	290,163	1,066,451	1,624,381	351,237	
In the third to fifth year, inclusive	4,348,235	439,418	3,908,817	4,153,235	647,988	
After the fifth year	608,124	40,308	567,816	1,960,607	107,247	
	7,961,114	1,120,175	6,840,939	9,744,615	1,546,166	
Less: Balance due within one year classified as current liabilities			(1,297,855)			(
			5,543,084			

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 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

22 OBLIGATIONS UNDER FINANCE LEASES (cont'd)

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, 2003, certain of the Group's and the Company's aircraft with carrying amount of RMB7,857,169,000 (2002: RMB8,960,483,000) were mortgaged to secure facilities with financial institutions granted to lessors totalling RMB6,840,939,000 (2002: RMB8,198,449,000).

23 ACCOUNTS PAYABLE

An ageing analysis of accounts payable is set out below:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	279,165	164,442	206,620	88,645
Due after 1 month but within 3 months	278,113	157,731	231,115	89,290
Due after 3 months but within 6 months	370,815	210,307	308,153	119,054
	928,093	532,480	745,888	296,989

As at 31 December, 2003, the Group and the Company had an amount due to a fellow subsidiary of RMB693,345,000 (2002: RMB267,468,000) which was included in accounts payable.

All of the accounts payable are expected to be settled within one year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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24 PROVISION FOR MAJOR OVERHAULS

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

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January,	193,887	187,125	63,389	48,154
Additional amount provided	68,620	49,051	67,603	33,460
Amount utilised	(62,326)	(42,289)	-	(18,225)
Balance at 31 December,	200,181	193,887	130,992	63,389
Less: Current portion included in accrued expenses	10,717	52,000	-	
	189,464	141,887	130,992	63,389

25 SHARE CAPITAL

	2003	2002

	RMB'000	RMB'000
Registered capital:		
2,200,000,000 domestic shares of RMB 1.00 each	2,200,000	2,200,000
1,174,178,000 H shares of RMB 1.00 each	1,174,178	1,174,178
1,000,000,000 A shares of RMB 1.00 each	1,000,000	-
	4,374,178	3,374,178
Issued and paid up capital:		
2,200,000,000 domestic shares of RMB 1.00 each	2,200,000	2,200,000
1,174,178,000 H shares of RMB 1.00 each	1,174,178	1,174,178
1,000,000,000 A shares of RMB 1.00 each	1,000,000	-
	4,374,178	3,374,178

In July 2003, the Company issued 1,000,000,000 A shares with a par value of RMB1.00 each at 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 RMB59,233,000, amounted to RMB1,640,767,000 and was credited to share premium account.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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26 RESERVES

Movements on reserves during the year comprise:

		THE GROUP		T
	Notes	2003 RMB'000	2002 RMB'000	2003 RMB'000
Share premium				
Balance at 1 January,		3,683,956	3,813,659	3,683,956
Land use rights adjustment	(f)	-	(129,703)	-
Share premium from issuance of shares, net of related issuance costs		1,640,767	-	1,640,767
Balance at 31 December,		5,324,723	3,683,956	5,324,723
Statutory surplus reserve	(a)			
Balance at 1 January,		337,195	391,867	337,195
Adjustments from adoption of new PRC accounting regulations	(c)	-	(106,007)	-
Transfer from profit and loss account		23,856	51,335	1,449

Balance at 31 December,		361,051	337,195	338,644
Statutory public welfare fund	(b)			
Balance at 1 January,		171,574	225,440	171,574
Adjustments from adoption of new PRC accounting regulations	(c)	-	(79,533)	-
Transfer from profit and loss account		1,113	25,667	724
Balance at 31 December,		172,687	171,574	172,298
Discretionary surplus reserve	(d)			
Balance at 1 January,		76,603	69,867	76,603
Adjustments from adoption of new PRC accounting regulations	(c)	-	-	-
Transfer from profit and loss account		-	6,736	-
Balance at 31 December,		76,603	76,603	76,603
Retained earnings/(Accumulated losses)				
Balance at 1 January,		1,969,701	1,346,652	445,636
Adjustments from adoption of new PRC accounting regulations	(c)	-	185,540	-
Land use rights adjustment	(f)	-	12,970	-
(Loss)/profit for the year		(358,267)	575,761	(580,959
Appropriations to reserves		(24,969)	(83,738)	(2,173
Dividends paid		-	(67,484)	-
Balance at 31 December,		1,586,465	1,969,701	(137,496
Total		7,521,529	6,239,029	5,774,772

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

26 RESERVES (cont'd)

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% to 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 reserve must be made before distribution of a dividend to shareholders.

(c) During 2002, the Group and the Company adopted certain new PRC accounting regulations which resulted in adjustments to the amounts of the Group's and Company's profits determined under PRC accounting regulations in respect of prior years and corresponding adjustments to amounts appropriated to the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve for the prior years.

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

(e) 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 principles and financial 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, 2003, the Company did not have any distributable reserves (2002: RMB445,636,000).

26 RESERVES (cont'd)

Notes: (cont'd)

(f) The Group adopted IAS 40 "Investment Property" in 2002. According to IAS 40, the land use rights which were previously included in fixed assets at revaluation base are now presented as lease prepayments and carried at historical cost base with effect from 1 January, 2002. Accordingly, the unamortised surplus on previous revaluations of the land use rights, net of related deferred tax asset, are reversed to the share premium and retained profits accounts. The IAS 40 was adopted prospectively in 2002 as the effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change.

27 RELATED PARTY TRANSACTIONS

The Group obtained various operational and financial services provided by CSAHC and its affiliates, and the Group's associated companies and jointly controlled entities during the normal course of its business. In the past, CSAHC was under the direct control of the CAAC. However, such control has been shifted to the State Assets Administration Committee since early 2003. Consequently, transactions with the CAAC and its affiliates are no longer presented as related party transactions of the Group.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

27 RELATED PARTY TRANSACTIONS (cont'd)

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 associated companies and jointly controlled entities during the year:

	Notes	2003 RMB'000	2002 RMB'000
EXPENSES			
PAID TO CSAHC AND OTHER RELATED PARTIES			
Handling charges	(a)	27,051	36,306
Wet lease rentals	(b)	35,751	26,164
Advertising expenses	(c)	-	3,275
Sundry aviation supplies	(d)	42,849	101,350
Commission expense	(e)	4,896	16,725
Air catering expense	(f)	28,199	29,058
Repairing charges	(g)	693,303	592,311
Housing benefits	(h)	85,000	85,000
Lease charges for land and buildings	(i)	15,224	15,224
Flight simulation service charges	(j)	101,355	-

PAID TO CAAC AND ITS AFFILIATES			
Jet fuel supplies		-	2,373,956
Aircraft insurance		-	256,238
Guarantee fees		-	1,025
Ticket reservation service charges		-	107,234
Passenger departure and cargo handling charges		-	62,111
Aircraft and traffic servicing charges		-	1,667,706
Commission expense		-	464,721
INCOME			
RECEIVED FROM CSAHC AND OTHER RELATED PARTIES			
Rental income	(j)	34,175	-
Wet lease rentals	(k)	-	27,599
Interest income	(l)	3,100	10,530
RECEIVED FROM CAAC AND ITS AFFILIATES			
Ground services income		-	39,735
Commission income		-	81,931
OTHERS			
Short term advances from CSAHC	(m)	165,995	-
Refund of medical benefit payments	(n)	58,120	-
Acquisition of aircraft and related spare parts and vehicles	(o)	-	946,866
Acquisition of subsidiaries	(p)	-	107,846

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

27 RELATED PARTY TRANSACTIONS (cont'd)

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 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 October 2002. The wet lease agreement was terminated in April 2003.

(c) Advertising expenses represent expense reimbursements to Southern Airlines Advertising Company ("SAAC") for promotional services rendered to the Group. SAAC was a subsidiary of CSAHC up to July 2002. In August 2002, the Company acquired 90% equity interest in SAAC from CSAHC.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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 28).

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

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

In addition, the Company entered into operating lease agreements to lease certain flight training facilities and buildings to Zhuhai Xiang Yi. Rental income earned by the Company amounted to RMB34,175,000 during 2003 (Note 10).

(k) During the period from August to October 2002, the Company received wet lease rentals totalling RMB27,599,000 from wet leasing of an Airbus 320-200 aircraft to Sichuan Airlines Corporation Limited, an associated company of the Company.

(l) 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 People's Bank of China (see Note 20).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

27 RELATED PARTY TRANSACTIONS (cont'd)

Notes: (cont'd)

(m) During the year, CSAHC made short term advances to the Group. These advances are unsecured, interest free and repayable on demand. As at 31 December, 2003, the advances amounted to RMB165,995,000.

(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 arrangement.

(o) During 2002, the Group acquired five Boeing 737-300/37K aircraft and related spare parts and certain vehicles from Zhongyuan Airlines, a subsidiary of CSAHC, at a consideration of approximately RMB1,096,866,000. The consideration was satisfied by cash of approximately RMB132,130,000 together with an assumption by the Group of Zhongyuan Airlines' debts of approximately RMB964,736,000. In addition, the Group received reimbursements of wet lease rentals totalling RMB150,000,000.

(p) In August 2002, the Company acquired 90% equity interest in each of Guangzhou Aviation Hotel, Southern Airlines Advertising Company and South China International Aviation & Travel Services Company from CSAHC at an aggregate cash consideration of approximately RMB107,846,000. Such consideration is determined by reference to the valuation reports prepared by Guangzhou Zhongtian Valuation Company Limited, a firm of independent valuers registered in the PRC.

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.

28 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 19% (2002: 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 profit and loss account as and when incurred.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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28 RETIREMENT AND HOUSING BENEFITS (cont'd)

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 RMB85,000,000 to CSAHC for a ten-year period effective 1 January, 1995.

During 2002, the Group provided additional quarters at its own expense to certain employees who are not eligible for quarters pursuant to the Services Agreement. These quarters were provided to the respective employees in accordance with the relevant PRC housing reform policy. The excess of the cost of these additional quarters over the considerations received by the Group from the employees of RMB17,624,000 were charged to expenses in 2002.

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 remained. 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 profit and loss account. As at 31 December, 2003, the Group already made payments totalling RMB130,479,000 (2002: RMB46,325,000) under the scheme and recorded its remaining contractual liabilities totalling RMB129,521,000 (2002: RMB213,675,000) as accrued liabilities on its balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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29 COMMITMENTS

(a) CAPITAL COMMITMENTS

As at 31 December, 2003, the Group and the Company had capital commitments as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002

	RMB'000	RMB'000	RMB'000	RMB'000
Commitments in respect of aircraft and related equipment (Note)				
- authorised and contracted for	10,615,079	5,875,996	7,739,290	5,875,996
Commitments in respect of investments in the Guangzhou new airport				
- authorised and contracted for	617,277	525,700	617,277	525,700
- authorised but not contracted for	1,454,661	2,601,720	1,454,661	2,601,720
	2,071,938	3,127,420	2,071,938	3,127,420
Other commitments				
- authorised and contracted for	232,570	43,887	29,628	42,968
- authorised but not contracted for	708,099	500,545	229,302	245,440
	940,669	544,432	258,930	288,408
	13,627,686	9,547,848	10,070,158	9,291,824

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
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29 COMMITMENTS (cont'd)

(a) CAPITAL COMMITMENTS (cont'd)

Note: As at 31 December, 2003, the Group had on order 2 Boeing 757-200 aircraft, 13 Boeing 737-700 aircraft, 4 Airbus 330-200 aircraft, 6 Embraer ERJ-145 aircraft and certain flight equipment, scheduled for deliveries in 2004 to 2005. Deposits of RMB2,494,853,000 have been made towards the purchase of these aircraft and related equipment. At 31 December, 2003, 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 COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Year ending 31 December, 2003	-	2,801,451	-	2,801,451

2004	4,584,823	2,343,978	3,248,674	2,343,978
2005	6,030,256	730,567	4,490,616	730,567
	10,615,079	5,875,996	7,739,290	5,875,996

The Group has taken steps towards the purchase of the airline business of China Northern Airlines Company and Xinjiang Airlines Company. No contractual obligations existed as at 31 December, 2003 and up to the date of approval of these financial statements. The purchase price has not yet been determined.

As at 31 December, 2003, the Group's and the Company's attributable share of the capital commitments of jointly controlled entities was as follows:

	THE GROUP AND THE COMPANY	
	2003 RMB'000	2002 RMB'000
Authorised and contracted for	24,137	63,723
Authorised but not contracted for	283,761	518,000
	307,898	581,723

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

29 COMMITMENTS (cont'd)

(b) OPERATING LEASE COMMITMENTS

As at 31 December, 2003, commitments under non-cancellable aircraft and flight equipment operating leases were as follows:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payments due				
Within one year	1,482,888	1,280,060	1,193,892	1,044,720
In the second to fifth year, inclusive	4,248,095	4,358,474	3,578,618	3,772,227
After the fifth year	2,388,874	2,898,104	2,278,463	2,893,237

8,119,857	8,536,638	7,050,973	7,710,184

(c) INVESTING COMMITMENTS

As at 31 December, 2003, the Company was committed to make a capital contribution of approximately RMB446 million and RMB Nil respectively (2002: RMB60 million and RMB201 million respectively) to its jointly controlled entities and associated companies.

30 CONTINGENT LIABILITIES

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

30 CONTINGENT LIABILITIES (cont'd)

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 its use 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 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 and, that as the defendants failed to perform the agreement, UASSC has 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, has been claimed for unspecified damages for breach of the agreement. Given that the Litigation is still at its preliminary stage, it is pre-matured to predict the result of the court judgment. Based on the opinion given by its instructing solicitors, the Company's directors consider that the Company has a reasonable chance of success in its defence to the claim. At present, the Company has filed an objection in respect of the jurisdiction of the court, and has requested the court to transfer the case of Mainland China for trial. Accordingly, the Company's directors consider that a provision for such claim and/or the associated legal costs is not required.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial assets of the Group include cash and cash equivalents, investments, trade receivables and other receivables. Financial liabilities of the Group include bank and other loans, amounts due to related companies, other liabilities, accounts payable, bills payable, sales in advance of carriage, accrual expenses and obligations under finance leases.

LIQUIDITY RISK

As at 31 December, 2003, the Group's net current liabilities amounted to RMB10,792 million (2002: RMB7,016 million). For the year ended 31 December, 2003, the Group recorded a net cash inflow from operating activities of RMB2,129 million (2002: RMB3,698 million), a net cash outflow from investing activities and financing activities of RMB3,820 million (2002: RMB2,745 million) and a decrease in cash and cash equivalents of RMB1,691 million (2002: increase of RMB953 million).

With regard to 2004 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. With regard to its short-term bank loans outstanding at 31 December, 2003, the Group has obtained firm commitments from its principal bankers to renew the relevant loans as they fall due during 2004. With regard 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 RMB8,450 million during 2004 and thereafter. The directors of the Company believe that such financing will be available to the Group.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK (cont'd)

LIQUIDITY RISK (cont'd)

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, 2004. 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 the 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.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK (cont'd)

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, 2003, the balance due from BSP agents amounted to RMB446,399,000 (2002: RMB353,246,000).

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, 2002 and 2003 are set out below:

	2003		2002	
	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	Carrying amount RMB'000	
THE GROUP				
Cash and cash equivalents	2,080,174	2,080,174	3,771,043	3
Trade receivables	833,604	833,604	671,776	
Other receivables	296,047	296,047	372,586	
Bank and other loans, current portion	7,096,846	7,164,216	5,240,726	5
Amounts due to related companies	929,003	929,003	525,090	
Other liabilities	1,019,811	1,019,811	646,989	
Accounts payable	928,093	928,093	532,480	
Bills payable	438,135	438,135	1,299,680	1
Sales in advance of carriage	466,087	466,087	390,531	
Accrued expenses	2,527,794	2,527,794	2,341,454	2
Bank and other loans, non-current portion	4,521,735	4,743,128	5,835,434	6

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK (cont'd)

FAIR VALUE (cont'd)

	2003		2002	
	CARRYING AMOUNT RMB'000	FAIR VALUE RMB'000	Carrying amount RMB'000	

THE COMPANY				
Cash and cash equivalents	1,404,874	1,404,874	2,960,337	2
Trade receivables	683,206	683,206	464,930	
Other receivables	222,438	222,438	239,601	
Bank and other loans, current portion	5,958,968	6,010,222	3,479,322	3
Amounts due to related companies	870,682	870,682	358,077	
Other liabilities	854,057	854,057	411,218	
Accounts payable	745,888	745,888	296,989	
Bills payable	438,135	438,135	1,299,680	1
Sales in advance of carriage	405,851	405,851	340,457	
Accrued expenses	1,628,072	1,628,072	1,049,806	1
Bank and other loans, non-current portion	3,670,499	3,827,220	4,628,372	4

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, amounts due to related companies, other liabilities, accounts payable, bills payable, sales in advance of carriage and accrued expenses

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.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK (cont'd)

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.

32 SEGMENTAL INFORMATION

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

	DOMESTIC RMB'000	HONG KONG REGIONAL RMB'000	*INTERNATIONAL RMB'000	TOTAL RMB'000
2003				
Traffic revenue	13,086,939	807,677	3,070,184	16,964,800
Other revenue	436,122	-	69,201	505,323
	13,523,061	807,677	3,139,385	17,470,123
Operating profit/(loss)	440,158	(29,210)	44,781	455,729
2002				
Traffic revenue	13,197,589	1,118,695	3,165,608	17,481,892
Other revenue	485,046	-	51,682	536,728
	13,682,635	1,118,695	3,217,290	18,018,620
Operating profit	1,614,975	193,440	217,662	2,026,077

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

33 RECONCILIATION AND SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION

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

	2003 RMB'000	2002 RMB'000
(Loss)/profit before taxation and minority interests	(511,610)	1,139,099
Depreciation and amortisation of fixed assets	1,997,882	1,839,293
Other amortisation	40,089	9,816

Amortisation of deferred credits	(1,541)	(7,217)
Share of associated companies' results	(47,798)	(36,988)
Share of jointly controlled entities' results	39,495	3,352
Loss/(gain) on sale of fixed assets	22,217	(170,740)
Interest income	(13,061)	(52,618)
Interest expense	823,725	959,193
Unrealised exchange loss, net	177,356	174,978
Decrease/(increase) in inventories	1,923	(76,472)
Increase in trade receivables	(161,828)	(110,749)
Decrease/(increase) in other receivables	76,539	(166,004)
(Increase)/decrease in prepaid expenses and other assets	(6,045)	123,924
Increase/(decrease) in amounts due to related companies	403,913	(193,175)
Increase/(decrease) in accounts payable	395,613	(61,843)
(Decrease)/increase in bills payable	(861,545)	1,299,680
Increase in sales in advance of carriage	75,556	19,985
Increase in accrued expenses	203,439	86,215
Increase/(decrease) in other liabilities	372,822	(33,032)
Increase in provision for major overhauls	47,577	16,226
Cash inflows from operations	3,074,718	4,762,923

(b) DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During 2002, the Group assumed from Zhongyuan Airlines debts totalling RMB964,736,000 in partial satisfaction of the consideration payable for acquisition of five Boeing 737-300/37K aircraft and other assets from Zhongyuan Airlines (Note 27(o)).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

33 RECONCILIATION AND SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION (cont'd)

(c) EFFECT OF ACQUISITION OF SUBSIDIARIES

	2003 RMB'000	2002 RMB'000
Net assets acquired:		
Fixed assets	-	96,636
Cash and cash equivalents	-	17,355
Trade receivables and other current assets	-	20,681
	-	134,672

Accounts payable	-	3,623
Accrued expenses and other liabilities	-	11,220
	-	14,843
Net assets value	-	119,829
Consideration paid	-	107,846
Cash and cash equivalents acquired	-	17,355
Net cash outflow from acquisition of subsidiaries	-	90,491

34 ULTIMATE HOLDING COMPANY

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

35 SUBSEQUENT EVENTS

In April 2004, the Company entered into a purchase agreement with Airbus SNC for the acquisition of fifteen Airbus 320-200 aircraft and six Airbus 319-100 aircraft, scheduled for deliveries in 2005 and 2006.

36 SUBSIDIARIES

The particulars of the Company's principal subsidiaries at 31 December, 2003 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT %	ATTRIBUTABLE EQUITY INTEREST INDIRECT %	ISSUED/ REGISTERED CAPITAL#	PRINCIPAL ACTIVITIE
China Southern Airlines (Group) Zhuhai Helicopter Company Limited (a)	PRC 31 August, 1993	100	-	100,000,000	Helicopter transportat
Guangxi Airlines Company Limited (a)	PRC 28 April, 1994	60	-	170,900,000	Airline
Southern Airlines Group	PRC	60	-	280,000,000	Airline

Shantou Airlines Company Limited (a)	20 July, 1993				
Zhuhai Airlines Company Limited (a)	PRC 8 May, 1995	60	-	250,000,000	Airline
Xiamen Airlines Company Limited (a)	PRC 11 August, 1984	60	-	588,434,000	Airline
Guizhou Airlines Company Limited (a)	PRC 12 November, 1991	60	-	80,000,000	Airline
Guangzhou Nanland Air Catering Company Limited (b)	PRC 21 November, 1989	51	-	55,980,000	Air catering
China Southern West Australian Flying College Pty Ltd	Australia 26 January, 1971	65	-	A$100,000	Pilot traini services
Guangzhou Baiyun International Logistic Company Ltd	PRC 23 July, 2002	61	-	20,000,000	Logistics operations
Guangzhou Aviation Hotel	PRC 8 January, 1997	90	-	63,290,000	Hotel operat

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

36 SUBSIDIARIES (cont'd)

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT %	ATTRIBUTABLE EQUITY INTEREST INDIRECT %	ISSUED/ REGISTERED CAPITAL#	PRINCIPAL ACTIVITIE
Southern Airlines Advertising Company Ltd	PRC 3 March, 1994	90	-	2,000,000	Aviation advertising
South China International Aviation & Travel Services Company	PRC 11 May, 1992	90	-	2,100,000	Travel servi
CZ Flamingo Limited	Cayman Islands 8 December, 1993	100	-	US$1,000	Aircraft lea
CZ Skylark Limited	Cayman Islands 17 November, 1993	100	-	US$1,000	Aircraft lea
CZ Kapok Limited	Cayman Islands	100	-	US$1,000	Aircraft lea

	26 October, 1993				
CSA-I Limited	Cayman Islands 1 September, 1993	100	-	US$1,000	Aircraft lea
CZ93B Limited	Cayman Islands 11 May, 1993	100	-	US$1,000	Aircraft lea
CZ97A Limited	Cayman Islands 2 January, 1997	100	-	US$1,000	Aircraft lea
Zhong Yuan 99A Limited	Cayman Islands 15 February, 1999	100	-	US$1,000	Aircraft lea
CXA92A Limited	Cayman Islands 3 August, 1992	-	60	US$1,000	Aircraft lea
CXA93A Limited	Cayman Islands 1 July, 1993	-	60	US$1,000	Aircraft lea
CXA95B Limited	Cayman Islands 7 July, 1995	-	60	US$1,000	Aircraft lea

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

36 SUBSIDIARIES (cont'd)

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST		ISSUED/ REGISTERED CAPITAL#	PRINCIPAL ACTIVITIE
		DIRECT %	INDIRECT %		
CXA95C Limited	Cayman Islands 16 October, 1995	-	60	US$1,000	Aircraft lea
CXA98A Limited	Cayman Islands 20 March, 1998	-	60	US$1,000	Aircraft lea
Xiamen Aviation Property Development Company (a)	PRC 22 June, 1993	-	60	5,000,000	Property development
Xiamen Aviation Advertising Company Limited (a)	PRC 17 December, 1992	-	60	620,218	Aviation advertising
Xiamen Aviation Supplies Limited (a)	PRC 30 July, 1997	-	60	8,560,000	Aviation sup

Xiamen Aviation Development Company Limited (a)	PRC 18 February, 1998	-	54	5,000,000	Hotel management
Bai Lu Finance Limited	Hong Kong 22 February, 1996	-	54	HK$10,000,000	Investment holding
Xiamen Air Holidays Limited	Hong Kong 28 April, 1994	-	54	HK$3,000,000	Travel servicing
Xiamen Macau Holidays Limited	Macau 11 May, 1995	-	27.5	MOP1,000,000	Travel servicing
Shantou Hua Kang Air Catering Company Ltd (a)	PRC 22 June, 1994	-	42	10,000,000	Air catering

Expressed in RMB, unless otherwise stated

(a) These subsidiaries are PRC limited companies.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

37 ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

The particulars of the Group's principal associated companies and jointly controlled entities as at 31 December, 2003 are as follows:

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT %	ATTRIBUTABLE EQUITY INTEREST INDIRECT %	ISSUED/ REGISTERED CAPITAL#	PRINCIPA ACTIVITI
Guangzhou Aircraft Maintenance Engineering Company Limited* (Note)	PRC 28 October, 1989	50	-	US$27,500,000	Provision aircraft and maintenan services
Southern Airlines Group Finance Company Limited	PRC 28 June, 1995	32	15.42	424,330,000	Provision o financial services
Hainan Phoenix Information System Limited	PRC 12 March, 1994	45	-	US$16,360,000	Provision o ticket reservatio system

					services
Hong Kong Business Aviation Centre Company Limited	Hong Kong 7 January, 1998	20	-	HKD1,000,000	Provision o private flight log services
Sichuan Airlines Corporation Limited	PRC 28 August, 2002	39	-	350,000,000	Airline
MTU Maintenance Zhuhai Co. Ltd.*	PRC 6 April, 2001	50	-	US$63,100,000	Provision o engine repair and maintenanc services
China Postal Airlines Limited*	PRC 25 November, 1996	49	-	306,000,000	Airline

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)
(EXPRESSED IN RENMINBI)

37 ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (cont'd)

NAME OF COMPANY	PLACE AND DATE OF ESTABLISHMENT/ OPERATION	ATTRIBUTABLE EQUITY INTEREST DIRECT %	ATTRIBUTABLE EQUITY INTEREST INDIRECT %	ISSUED/ REGISTERED CAPITAL#	PRINCIPA ACTIVITI
Zhuhai Xiang Yi Aviation Technology Company Limited*	PRC 10 July, 2002	51	-	US$29,800,000	Provision o flight simulation services
CSN-ETC e-commerce Limited*	PRC 10 February, 2003	51	-	5,880,000	Provision o internet services

Expressed in RMB, unless otherwise stated

* These are jointly controlled entities

Note: Guangzhou Aircraft Maintenance Engineering Company Limited has been reclassified from an associated company to a jointly controlled entity since 2003 due to a change in the composition of its shareholders in 2003.

APPENDIX IV FINANCIAL INFORMATION OF THE LISTED GROUP

C. UNAUDITED INTERIM FINANCIAL REPORT OF THE COMPANY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE, 2004

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		FOR THE SIX MONTHS ENDED 30 JUNE,				20
	Note	2004 RMB'000	2003 RMB'000	2004 HK$'000	2004 US$'000	In (De
Operating revenue						
Traffic revenue:						
Passenger		9,776,002	5,615,796	9,214,819	1,181,162	
Cargo and mail		1,058,276	921,883	997,527	127,864	
		10,834,278	6,537,679	10,212,346	1,309,026	
Other revenue		259,659	195,193	244,754	31,372	
Total operating revenue	2	11,093,937	6,732,872	10,457,100	1,340,398	
Operating expenses:						
Flight operations		4,722,442	3,516,885	4,451,355	570,578	
Maintenance		1,409,841	1,218,488	1,328,910	170,341	
Aircraft and traffic servicing		1,688,612	1,197,273	1,591,679	204,022	
Promotion and sales		874,393	673,965	824,199	105,646	
General and administrative		551,719	480,598	520,048	66,660	
Depreciation and amortisation		1,083,346	1,016,530	1,021,158	130,893	
Other		8,244	3,465	7,771	996	
Total operating expenses		10,338,597	8,107,204	9,745,120	1,249,136	
Operating profit/(loss)		755,340	(1,374,332)	711,980	91,262	
Non-operating income/(expenses):						
Share of associated companies' results		21,156	2,825	19,942	2,556	
Share of jointly controlled entities' results		4,351	(21,654)	4,101	526	
Profit/(loss) on sale of fixed assets		2,999	(22,679)	2,827	362	
Interest income		8,994	5,842	8,478	1,087	
Interest expense	3	(343,620)	(455,456)	(323,895)	(41,517)	
Exchange gain/(loss), net		15,397	(4,774)	14,513	1,860	
Other, net		4,531	(287)	4,271	548	1
Total net non-operating expenses		(286,192)	(496,183)	(269,763)	(34,578)	

Profit/(loss) before taxation and minority interests	3	469,148	(1,870,515)	442,217	56,684
Taxation (expense)/credit	4	(94,790)	544,992	(89,349)	(11,453)
Profit/(loss) before minority interests		374,358	(1,325,523)	352,868	45,231
Minority interests		(108,174)	93,910	(101,964)	(13,070)
Profit/(loss) attributable to shareholders		266,184	(1,231,613)	250,904	32,161
Basic earnings/(loss) per share	5	RMB0.06	RMB(0.37)	HK$0.06	US$0.007

The notes on pages 229 to 235 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30 June, 2004
(Expressed in Renminbi)

	Note	AS AT 30 JUNE, 2004 RMB'000	31 D
NON-CURRENT ASSETS			
Fixed assets		29,128,791	28,
Construction in progress		2,189,052	1,
Lease prepayments		344,755	
Interest in associated companies		443,780	
Interest in jointly controlled entities		787,874	
Other investments		199,007	
Lease and equipment deposits		4,717,553	2,
Deferred expenditure		233,726	
Long-term receivables		6,648	
		38,051,186	35,
CURRENT ASSETS			
Inventories		572,457	
Trade receivables	7	1,210,680	
Other receivables		310,365	
Prepaid expenses and other assets		323,947	
Cash and cash equivalents		2,931,786	2,
		5,349,235	4,

CURRENT LIABILITIES			
Bank and other loans		9,931,236	7,
Obligations under finance leases		1,138,495	1,
Amounts due to related companies		906,353	
Other liabilities		1,176,852	1,
Accounts payable	8	841,409	
Bills payable		-	
Sales in advance of carriage		386,255	
Accrued expenses		3,217,955	2,
Taxes payable		72,954	
		17,671,509	14,
NET CURRENT LIABILITIES		(12,322,274)	(10,
TOTAL ASSETS LESS CURRENT LIABILITIES		25,728,912	24,
LONG-TERM LIABILITIES AND DEFERRED ITEMS			
Bank and other loans		6,062,819	4,
Obligations under finance leases		5,006,135	5,
Provision for major overhauls		230,525	
Deferred credits		44,983	
Deferred taxation		456,354	
		11,800,816	10,
		13,928,096	13,

The notes on pages 229 to 235 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)(Continued)
As at 30 June, 2004
(Expressed in Renminbi)

	Note	AS AT 30 JUNE, 2004 RMB'000	31 D R
REPRESENTING:			
SHARE CAPITAL		4,374,178	4,
RESERVES	9	7,787,713	7,
SHAREHOLDERS' EQUITY		12,161,891	11,

MINORITY INTERESTS	1,766,205	1,
	13,928,096	13,

Approved and authorised for issue by the board of directors on 26 August, 2004.

YAN ZHI QING	WANG CHANG SHUN	XU JIE BO
Director	Director	Director

The notes on pages 229 to 235 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
For the six months ended 30 June, 2004
(Expressed in Renminbi)

	SHARE CAPITAL RMB'000	SHARE PREMIUM RMB'000	OTHER RESERVES RMB'000	RETAINED EARNINGS RMB'000	TOT RMB'0
At 1 January, 2003	3,374,178	3,683,956	585,372	1,969,701	9,613
Loss for the period	-	-	-	(1,231,613)	(1,231
At 30 June, 2003	3,374,178	3,683,956	585,372	738,088	8,381
At 1 January, 2004	4,374,178	5,324,723	610,341	1,586,465	11,895
Profit for the period	-	-	-	266,184	266
AT 30 JUNE, 2004	4,374,178	5,324,723	610,341	1,852,649	12,161

The notes on pages 229 to 235 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the six months ended 30 June, 2004
(Expressed in Renminbi)

	FOR THE SIX MONTHS ENDED 30 JUNE,

	2004 RMB'000	2003 RMB'000
Net cash inflows from operating activities	1,217,840	1,199,731
Net cash used in investing activities	(4,050,525)	(1,886,023)
Net cash outflows before financing activities	(2,832,685)	(686,292)
Net cash inflows/(outflows) from financing activities	3,684,297	(803,404)
Increase/(decrease) in cash and cash equivalents	851,612	(1,489,696)
Cash and cash equivalents as at 1 January,	2,080,174	3,771,043
Cash and cash equivalents as at 30 June,	2,931,786	2,281,347

The notes on pages 229 to 235 form part of this interim financial report.

NOTES:

1 BASIS OF PREPARATION

This interim financial report of China Southern Airlines Company Limited (the "Company") and its subsidiaries (the "Group") is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants. KPMG's independent review report to the Board of Directors is included on page 25.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December, 2003 included in the interim financial report does not constitute the Group's annual financial statements prepared under International Financial Reporting Standards for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December, 2003 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April, 2004.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2003 annual financial statements.

The notes on the unaudited interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2003 annual financial statements.

2 TURNOVER

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

Turnover comprises revenues from airline and airline-related businesses and is stated net of sales tax. The turnover for the six months ended 30 June, 2003, was stated net of sales tax and contributions to the CAAC Infrastructure Development Fund.

Sales tax is payable at 3% (2003: 3%) of the Group's traffic revenue in respect of domestic flights and international/Hong Kong regional outbound flights. During the six months ended 30 June, 2003, the Group's passenger revenue for May and June 2003 was exempted from sales tax.

Prior to 1 April, 2004, contributions to the CAAC Infrastructure Development Fund were payable at 5% and 2%, respectively of the Group's domestic and international/Hong Kong regional traffic revenue, except for the period from 1 May, 2003 to 31 March, 2004 during which the Group was exempted from contributions to the CAAC Infrastructure Development Fund. Effective from 1 April, 2004, contributions to the CAAC Infrastructure Development Fund are payable based on the Group's traffic capacity deployed on its routes. The contributions now form part of the flight operations expenses.

2 TURNOVER (Continued)

The Group's turnover and operating profit/(loss) by geographic region are as follows:

	FOR THE SIX MONTHS ENDED 30 JUNE,			
	DOMESTIC RMB'000	HONG KONG REGIONAL RMB'000	INTERNATIONAL RMB'000	TOTAL RMB'000
2004				
Traffic revenue	8,341,352	568,609	1,924,317	10,834,278
Other revenue	259,659	-	-	259,659
Turnover	8,601,011	568,609	1,924,317	11,093,937
Operating profit	604,728	38,852	111,760	755,340
2003				
Traffic revenue	4,896,421	321,912	1,319,346	6,537,679
Other revenue	195,193	-	-	195,193

Turnover	5,091,614	321,912	1,319,346	6,732,872
Operating (loss)	(1,198,810)	(80,384)	(95,138)	(1,374,332)

3 PROFIT/(LOSS) BEFORE TAXATION AND MINORITY INTERESTS

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000
Profit/(loss) before taxation and minority interests is arrived at after charging:		
Depreciation		
- owned assets	815,604	768,595
- assets held under finance leases	254,742	247,935
Staff costs	1,061,144	847,623
Operating lease charges in respect of aircraft	827,665	820,491
Amortisation of deferred expenditure	13,000	13,348
Interest on bank and other loans	174,232	273,841
Finance charges on obligations under finance leases	186,147	231,371
Less: borrowing costs capitalised	(16,759)	(49,756
Net interest expense	343,620	455,456

4 TAXATION EXPENSE/(CREDIT)

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000
PRC income tax	27,953	2,859
Share of taxation of associated companies	3,738	3,791
Share of taxation of jointly controlled entities	5,050	-
	36,741	6,650
Deferred taxation	58,049	(551,642)
	94,790	(544,992)

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 from Guangzhou Municipal State Tax Bureau, 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 to 15% from 33% beginning from that date.

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

5 BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to shareholders of RMB266,184,000 (2003: loss of RMB1,231,613,000) and the weighted average number of shares in issue during the period of 4,374,178,000 (2003: 3,374,178,000).

There were no dilutive potential shares in existence during the six months ended 30 June, 2003 and 2004.

6 DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June, 2004 (2003: Nil).

7 TRADE RECEIVABLES

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. An ageing analysis of trade receivables, net of impairment losses, is set out below:

	AS AT 30 JUNE, 2004 RMB'000	As at 31 December, 2003 RMB'000
Within 1 month	919,687	589,080
More than 1 month but less than 3 months	288,093	235,828
More than 3 months but less than 12 months	2,900	8,696
	1,210,680	833,604

8 ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	AS AT 30 JUNE, 2004 RMB'000	As at 31 December, 2003 RMB'000
Due within 1 month or on demand	275,060	279,165
Due after 1 month but within 3 months	242,721	278,113
Due after 3 months but within 6 months	323,628	370,815
	841,409	928,093

9 RESERVES

No transfer to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve has been made during the period and the corresponding period of 2003. According to the Articles of Association of the Company and certain of its subsidiaries and the PRC Company Law, any such transfer shall be proposed by the respective board of directors and approved by shareholders in the annual general meeting.

10 COMMITMENTS

(a) CAPITAL COMMITMENTS

As at 30 June, 2004, the Group had capital commitments as follows:

	AS AT 30 JUNE, 2004 RMB'000
Commitments in respect of aircraft and related equipment	
- authorised and contracted for	14,155,601
Commitments in respect of investments in the Guangzhou new airport	
- authorised and contracted for	387,185
- authorised but not contracted for	1,252,906
	1,640,091
Other commitments	
- authorised and contracted for	134,201
- authorised but not contracted for	656,971

	791,172
	16,586,864

The Group has taken steps towards the purchase of the airline business of China Northern Airlines Company and Xinjiang Airlines Company. No contractual obligations existed as at 30 June, 2004 and up to the date of approval of this interim financial report. The purchase price has not yet been determined.

(b) INVESTING COMMITMENTS

As at 30 June, 2004, the Company was committed to make a capital contribution of approximately RMB382 million (as at 31 December, 2003: approximately RMB446 million) to its jointly controlled entities.

11 RELATED PARTY TRANSACTIONS

The Group obtained various operating and financial services provided by China Southern Air Holding Company ("CSAHC"), the ultimate holding company and its affiliates, and the Group's associated companies 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 associated companies and jointly controlled entities during the period:

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000
EXPENSES		
Paid to CSAHC and its affiliates		
Handling charges	18,552	14,277
Wet lease rentals	–	27,800
Sundry aviation supplies	25,596	25,982
Air catering expenses	18,865	11,986
Housing benefits	42,500	42,500
Lease charges for land and buildings	7,612	7,612
Paid to associated companies and jointly controlled entities		
Repairing charges	431,340	277,579
Flight simulation service charges	46,426	50,151
INCOME		
Received from associated companies and jointly controlled entities		

Rental income	15,288	15,288
Interest income	1,025	1,178

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

As at 30 June, 2004, the Group had cash and cash equivalents placed with Southern Airlines Group Finance Company Limited, a PRC authorised financial institution controlled by CSAHC and an associated company of the Group amounting to RMB677,835,000 (as at 31 December, 2003: RMB365,906,000). The applicable interest rates are determined in accordance with the rates published by the People's Bank of China.

11 RELATED PARTY TRANSACTIONS (Continued)

As at 31 December, 2003, the Group had advances from CSAHC amounting to RMB165,995,000, which was interest free and repayable on demand. The advances were repaid by the Group during the period.

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

12 CONTINGENT LIABILITIES

There have been no material adverse changes in contingent liabilities of the Group subsequent to 31 December, 2003, details of which are disclosed in its 2003 annual financial statements.

13 CONVENIENCE TRANSLATION

The unaudited consolidated profit and loss account has been prepared in Renminbi ("RMB"), the national currency of the PRC. Translations of amounts from RMB into Hong Kong dollars ("HK$") and United States dollars ("US$") solely for the convenience of readers have been made at the rates of HK$1.00 to RMB1.0609 and US$1.00 to RMB8.2766, being the average of the buying and selling rates as quoted by the People's Bank of China at the close of business on 30 June, 2004. No representation is made that the RMB amounts could have been or could be converted into HK$ or US$ at these rates or at any other certain rates on 30 June, 2004 or on any other date.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IX, a copy of the following report is available for inspection.

[KPMG LOGO]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

12 November, 2004

The Directors
China Southern Airlines Company Limited
Baiyun International Airport
Guangzhou
People's Republic of China

Dear Sirs,

We report on the unaudited pro forma financial information of the Combined Group (the Listed Group (as defined herein) together with the Airline Operations (as defined herein) of Northern Airlines Group (as defined herein) and the Airline Operations of Xinjiang Airlines Group (as defined herein)) (the "Pro Forma Financial Information") set out on pages 239 to 243 in Section A of Appendix V to the shareholders' circular of China Southern Airlines Company Limited (the "Company", and together with its subsidiaries are referred to as the "Listed Group") dated 12 November, 2004, which has been prepared by the Company solely for illustrative purposes to provide information about how the proposed acquisition of the airline and airline related operations (the "Airline Operations") of each of China Northern Airlines Company and its subsidiaries ("Northern Airlines Group") and Xinjiang Airlines Company and its subsidiaries ("Xinjiang Airlines Group") by the Company (the "Acquisition") as described in the accompanying introduction to the unaudited pro forma financial information of the Combined Group might have affected the historical amounts in the accompanying unaudited pro forma balance sheet of the Combined Group as at 30 June, 2004, and the unaudited pro forma statement of income and unaudited pro forma condensed statement of cash flows of the Combined Group for the six-month period ended 30 June, 2004. The historical financial information is derived from the unaudited historical financial information of the Listed Group as set out in Appendix IV and the audited historical financial information of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group appearing as set out in Appendices II and III respectively. The basis of preparation of the Pro Forma Financial Information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Combined Group.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or result of:

- the Combined Group had the Acquisition actually completed as at the dates indicated therein; or

- the Combined Group at any future date or for any future periods.

OPINION

In our opinion:

(a) the accompanying unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

The accompanying unaudited pro forma financial information of the Combined Group (the Listed Group (as defined herein) together with the Airline Operations (as defined herein) of Northern Airlines Group (as defined herein) and the Airline Operations of Xinjiang Airlines Group (as defined herein)) has been prepared to illustrate the effect of the proposed acquisition of the airline and

airline related operations (the "Airline Operations") of each of China Northern Airlines Company and its subsidiaries ("Northern Airlines Group") and Xinjiang Airlines Company and its subsidiaries ("Xinjiang Airlines Group") by China Southern Airlines Company Limited (the "Company", and together with its subsidiaries are referred to as the "Listed Group") (the "Acquisition"). The consideration is assumed to be approximately RMB1,897 million, which represents the aggregate amount of the net assets value of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as at 30 June, 2004 prepared under PRC Accounting Rules and Regulations. The consideration will be satisfied by short term U.S. dollar bank loans amounting to RMB1,000 million and cash of RMB897 million.

The accompanying unaudited pro forma statement of income and unaudited pro forma condensed statement of cash flows of the Combined Group for the six-month period ended 30 June, 2004 gives effect to the Acquisition as if the Acquisition had been completed on 1 January, 2004. The accompanying unaudited pro forma balance sheet of the Combined Group as at 30 June, 2004 gives effect to the Acquisition as if the Acquisition had been completed on 30 June, 2004.

The accompanying unaudited pro forma financial information of the Combined Group is prepared based upon the audited historical financial information of the Airline Operations of Northern Airlines Group and Xinjiang Airlines Group as set out in Appendices II and III respectively and the unaudited historical financial information of the Listed Group as set out in Appendix IV after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Combined Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Combined Group should be read in conjunction with the financial information of the Airline Operations of Northern Airlines Group and Xinjiang Airlines Group as set out in Appendices II and III respectively, the financial information of the Listed Group as set out in Appendix IV and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA STATEMENT OF INCOME OF THE COMBINED GROUP
For the six-month period ended 30 June, 2004

	THE LISTED GROUP HISTORICAL	NORTHERN AIRLINES GROUP HISTORICAL	XINJIANG AIRLINES GROUP HISTORICAL	PRO FORMA ADJUSTMENTS
	RMB'000	RMB'000	RMB'000	RMB'000
OPERATING REVENUE				
Traffic revenue	10,834,278	3,391,448	1,176,300	
Other operating revenue	259,659	73,232	38,776	
TOTAL OPERATING REVENUE	11,093,937	3,464,680	1,215,076	-
OPERATING EXPENSES				

Flight operations	4,722,442	1,480,465	639,339	
Maintenance	1,409,841	412,118	126,536	8,881
Aircraft and traffic servicing	1,688,612	464,035	134,088	
Promotion and sales	874,393	219,471	80,877	
General and administrative	551,719	114,849	61,279	
Depreciation and	1,083,346	404,419	173,177	
amortisation Others	8,244	-	-	
TOTAL OPERATING EXPENSES	10,338,597	3,095,357	1,215,296	8,881
OPERATING PROFIT/(LOSS)	755,340	369,323	(220)	(8,881)
NON-OPERATING INCOME/(EXPENSES)				
Interest income	8,994	4,257	746	(3,228)
Interest expense	(343,620)	(195,027)	(69,417)	(10,850)
Exchange gain/(loss), net	15,397	23,567	(64)	
Share of associated companies' results	21,156	-	-	
Share of jointly controlled entities' results	4,351	-	-	
Gain/(loss) on disposal of property, plant and equipment	2,999	(439)	(800)	
Others, net	4,531	-	-	
TOTAL NON-OPERATING EXPENSES, NET	(286,192)	(167,642)	(69,535)	(14,078)
PROFIT/(LOSS) BEFORE INCOME TAX AND MINORITY INTERESTS	469,148	201,681	(69,755)	(22,959)
INCOME TAX	(94,790)	(67,300)	24,048	3,444
				23,592
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	374,358	134,381	(45,707)	4,077
MINORITY INTERESTS	(108,174)	661	1,396	
NET PROFIT/(LOSS)	266,184	135,042	(44,311)	4,077
BASIC EARNINGS PER SHARE (IN RMB)	0.06			
WEIGHTED AVERAGE NUMBER OF SHARES	4,374,178,000			

UNAUDITED PRO FORMA BALANCE SHEET OF THE COMBINED GROUP
As at 30 June, 2004

	THE LISTED GROUP HISTORICAL	NORTHERN AIRLINES GROUP HISTORICAL	XINJIANG AIRLINES GROUP HISTORICAL	PRO FO ADJUSTM

	RMB'000	RMB'000	RMB'000	RMB'0
NON-CURRENT ASSETS				
Property, plant and equipment, net	29,128,791	9,141,267	4,043,708	
Construction in progress	2,189,052	38,930	13,404	
Lease prepayments	344,755	-	-	55,
Interest in associated companies	443,780	-	-	
Interest in jointly controlled entities	787,874	-	-	
Other investments	199,007	68,209	-	
Lease and equipment deposits	4,717,553	437,117	53,620	
Deferred expenditure	233,726	122,093	-	
Long term receivables	6,648	-	-	
TOTAL NON-CURRENT ASSETS	38,051,186	9,807,616	4,110,732	55,
CURRENT ASSETS				
Inventories	572,457	544,093	71,311	51,
Trade receivables	1,210,680	398,158	125,212	(345,
Other receivables and prepaid expenses	634,312	566,110	169,295	
Cash and cash equivalents	2,931,786	234,733	286,998	(896,
TOTAL CURRENT ASSETS	5,349,235	1,743,094	652,816	(1,190,
CURRENT LIABILITIES				
Bank and other loans	9,931,236	767,257	1,056,639	1,000,
Obligations under finance leases	1,138,495	1,063,047	-	
Amounts due to related companies	906,353	-	-	(675,
Other liabilities and accrued expenses	4,394,807	1,403,363	718,783	
Accounts payable	841,409	140,026	128,638	(9,
Sales in advance of carriage	386,255	-	-	338,
Tax payable	72,954	-	-	
TOTAL CURRENT LIABILITIES	17,671,509	3,373,693	1,904,060	654,
NET CURRENT LIABILITIES	(12,322,274)	(1,630,599)	(1,251,244)	(1,845,
TOTAL ASSETS LESS CURRENT LIABILITIES	25,728,912	8,177,017	2,859,488	(1,789,
NON-CURRENT LIABILITIES AND DEFERRED ITEMS				
Bank and other loans	6,062,819	1,811,371	1,735,037	
Obligations under finance leases	5,006,135	5,402,143	-	
Provision for major overhauls	230,525	-	182,319	
Deferred credits	44,983	25,750	-	
Deferred taxation	456,354	(20,313)	(19,195)	16,
				16,
NON-CURRENT LIABILITIES AND DEFERRED ITEMS	11,800,816	7,218,951	1,898,161	33,
MINORITY INTERESTS	1,766,205	2,372	76,777	16,
	12,161,891	955,694	884,550	(1,840,
CAPITAL AND RESERVES	12,161,891	955,694	884,550	(1,840,

UNAUDITED PRO FORMA CONDENSED STATEMENT OF CASH FLOWS OF THE COMBINED GROUP
For the six-month period ended 30 June, 2004

	THE LISTED GROUP HISTORICAL	NORTHERN AIRLINES GROUP HISTORICAL	XINJIANG AIRLINES GROUP HISTORICAL	PRO FORMA ADJUSTMENTS
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash from operating activities	1,217,840	221,973	69,672	(10,850) (3,228)
Net cash (used in)/generated from investing activities	(4,050,525)	92,732	(57,890)	(977,815)
Net cash (outflows)/inflows before financing activities	(2,832,685)	314,705	11,782	
Net cash inflows/(outflows) from financing activities	3,684,297	(622,018)	(101,565)	1,000,000
Increase/(decrease) in cash and cash equivalents	851,612	(307,313)	(89,783)	
Cash and cash equivalents at 1 January, 2004	2,080,174	542,046	376,781	(918,827)
Cash and cash equivalents at 30 June, 2004	2,931,786	234,733	286,998	

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

(1) To record the additional interest expense arising from short term U.S. dollar bank loans bearing interest at 2.17% per annum amounting to RMB1,000 million borrowed to partially satisfy the consideration as if the Acquisition had taken place on 1 January, 2004.

(2) To adjust for reduction in the interest income for the cash consideration of RMB897 million to be taken from the internal resources depositing in certain PRC banks enjoying saving rate of 0.72% per annum of the Listed Group as if the Acquisition had taken place on 1 January, 2004.

(3) To record the additional costs of inventories charged to the combined statement of income as a result of adjusting the carrying value of inventories to fair value under purchase method as if the Acquisition had taken place on 1 January, 2004.

(4) To record the tax effect of the pro forma statement of income adjustments described in notes 1 to 3 above using the Company's applicable income tax rate of 15%.

(5) To adjust for the reduction in taxation because of different applicable income tax rates on the Company and the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as if the Acquisition had taken place on 1 January, 2004. The Company's applicable income tax rate is 15% while the applicable income tax rate of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group is 33%. The Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group will become branches of the Company subsequent to the Acquisition and will be subject to the Company's income tax rate of 15% according to the current relevant PRC tax regulations.

(6) To record the payment of consideration of RMB1,897 million satisfied by short term U.S. dollar bank loans amounting to RMB1,000 million and cash of RMB897 million as if the Acquisition had taken place on 30 June, 2004.

(7) To adjust the carrying value of inventories to fair value under purchase method and to reverse the corresponding deferred tax asset recognised as if the Acquisition had taken place on 30 June, 2004.

(8) To adjust the carrying value of land use rights to fair value under purchase method, the related deferred tax liability and the corresponding minority shareholders' share as if the Acquisition had taken place on 30 June, 2004.

(9) Elimination of the inter-company balances among the Airline Operations of Northern Airlines Group, the Airline Operations of Xinjiang Airlines Group and the Listed Group on combined basis.

(10) To record the pro forma cash flow effect of the Acquisition, being the payment of consideration of RMB1,897 million, net of the cash and cash equivalents acquired amounting to RMB919 million as if the Acquisition had taken place on 1 January, 2004

(B) INDEBTEDNESS

As at the close of business on 30 September, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Combined Group had bank and other loans of approximately RMB22,031,716,000 and finance lease obligations of approximately RMB11,966,164,000. As at 30 September, 2004, certain bank loans of the Combined Group were secured by certain aircraft with an aggregate carrying amount of RMB10,529,085,000. Finance lease obligations were secured by the related aircraft under finance lease with an aggregate carrying amount of RMB11,886,637,000. In addition, bank loans of RMB3,071,227,000 were also guaranteed by certain banks.

Save as aforesaid or as otherwise disclosed herein, the Combined Group did

not have, at the close of business on 30 September, 2004, outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

(C) WORKING CAPITAL

The Directors of the Company are of the opinion that the Combined Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements.

The forecast combined profit after taxation and minority interests but before extraordinary items of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ending 31 December, 2004 is set out in the section headed "Prospective Financial Information" in the Letter from the Board.

(A) BASES AND ASSUMPTIONS

The management of the Company, the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group have prepared the forecast combined profit after taxation and minority interests but before extraordinary items of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for the year ending 31 December, 2004. The management of the Company, Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December, 2004. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as summarised in Appendices II and III respectively and on the following principal assumptions:

(1) there will be no material changes in existing government policies or political, legal, including changes in legislations or rules, regulatory, fiscal, economic or market conditions in the PRC or any of the countries in which the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group carry out business;

(2) the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group will continue to be authorised to operate services to other countries and cities of which their current scheduled services are covered pursuant to the bilateral aviation agreements between the PRC and overseas governments;

(3) the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group will be able to maintain all of their certificates and licenses required from the CAAC to enable them to operate their forecast services;

(4) there will be no material changes in the bases or rates of taxation or duties in the PRC or any of the countries in which the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group operate;

(5) there will be no material changes in inflation, interest rates or foreign currency exchange rates from those currently prevailing; and

(6) the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group will not be severely interrupted by any force majeure events or unforeseeable factors of any unforeseeable reasons that are beyond the control of the Company, the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group, including but not limited to, the occurrence of natural disasters or catastrophes, epidemics or serious accidents.

(B) LETTERS

Set out below are the text of the letters received from KPMG, and from the Company's Financial Advisers in connection with the profit forecast and prepared for the sole purpose of inclusion in this circular.

[KPMG LOGO]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

12 November, 2004

The Directors
China Southern Airlines Company Limited
J.P. Morgan Securities (Asia Pacific) Limited
ICEA Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast (the "Forecast") of the combined profit after taxation and minority interests but before extraordinary items of the airline and airline related operations (the "Airline Operations") of China Northern Airlines Company and its subsidiaries (collectively referred to as "Northern Airlines Group") for the year ending 31 December, 2004, for which the directors (the "Directors") of China Southern Airlines Company Limited (the "Company") and management of the Airline Operations of Northern Airlines Group ("Management") are solely responsible, as set out in the circular dated 12 November, 2004 issued by the Company (the "Circular").

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions made by the Directors and Management as set out in Part A of Appendix VI to the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Airline Operations of Northern Airlines Group as set out in our Accountants' Report on Financial Information of the Airline Operations of Northern Airlines Group dated 12 November, 2004, the text of which is set out in Appendix II to the circular.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

[KPMG LOGO]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

12 November, 2004

The Directors
China Southern Airlines Company Limited
J.P. Morgan Securities (Asia Pacific) Limited
ICEA Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast (the "Forecast") of the combined profit after taxation and minority interests but before extraordinary items of the airline and airline related operations (the "Airline Operations") of Xinjiang Airlines Company and its subsidiaries (collectively referred to as "Xinjiang Airlines Group") for the year ending 31 December, 2004, for which the directors (the "Directors") of China Southern Airlines Company Limited (the "'Company") and management of the Airline Operation of Xinjiang Airlines Group ("Management") are solely responsible, as set out in the circular dated 12 November, 2004 issued by the Company (the "Circular").

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions made by the Directors and Management as set out in Part A of Appendix VI to the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Airline Operations of Xinjiang Airlines Group as set out in our Accountants' Report on Financial Information of the Airline Operations of Xinjiang Airlines Group dated 12 November, 2004, the text of which is set out in Appendix III to the circular.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

[JPMORGAN LOGO]

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
28th Floor
Chater House
8 Connaught Road Central
Hong Kong

12 November, 2004

The Directors
China Southern Airlines Company Limited
Baiyun International Airport

Guangzhou 510405
PRC

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as defined in this circular, for the year ending 31 December, 2004, as set out in the section headed "Letter from the Board - Prospective Financial Information" of the circular dated 12 November, 2004 issued by the Company.

We have discussed with you the assumptions upon which the profit forecast has been made. We have also considered the letter dated 12 November, 2004 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions solely made by the management of the Company, the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group, respectively, and on the basis of the accounting policies and calculations reviewed by KPMG, we are of the opinion that the profit forecast, for which the management of the Company, the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
TODD R. MARIN
Managing Director

The following information should be read in conjunction with the financial information as set out in Appendix I headed "Information regarding the Airline Operations of Northern Airlines Group and Xinjiang Airlines Group" and the Accountants' Reports on Financial Information of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group as set out in Appendices II and III respectively.

OVERVIEW

The Listed Group provides commercial airlines services throughout China, Southeast Asia and other parts of the world. The Listed Group conducts a portion of its airline operations through its 60% owned subsidiaries, namely Xiamen Airlines Company Limited, Southern Airlines Group Shantou Airlines Company Limited, Guangxi Airlines Company Limited, Zhuhai Airlines Company Limited and Guizhou Airlines Company Limited. The Listed Group also provides air cargo and mail services. Currently, the Listed Group has two Boeing 747-400 freighters servicing three international cargo routes. The Listed Group's airline operations are fully integrated with its airline-related businesses, including flight training, aircraft maintenance and air catering operations. Please refer to the annual reports of the Company for each of the years in the three-year period ended 31 December, 2003 and the interim report of the Company for the six-month period ended 30 June, 2004 for a detailed management discussion and analysis of the financial performance of the Listed Group during the respective periods.

Northern Airlines Group is principally engaged in the provision of domestic and international passenger, cargo and mail airline services, with flights operating primarily from Shenyang Tao Xian International Airport which is the main base of Northern Airlines Group in the PRC. Northern Airlines Group has three branches in Dalian (Liaoning Province), Changchun (Jilin Province) and Harbin (Heilongjiang Province). Xinjiang Airlines Group is also principally engaged in the provision of domestic and international passenger, cargo and mail airline services, with flights operating primarily from Urumqi International Airport which is the main base of Xinjiang Airlines Group in the PRC.

CERTAIN FINANCIAL INFORMATION AND OPERATING DATA BY GEOGRAPHIC REGION

The following table sets forth certain financial information and operating data of the Airline Operations of Northern Airlines Group by geographic region for each of the years in the three-year period ended 31 December, 2003 and the six-month periods ended 30 June, 2003 and 2004:

	SIX-MONTH PERIODS ENDED 30 JUNE,		YEARS ENDED 31 DECEMBER,		
	2004	2003	2003	2002	2001
Traffic					
Revenue passenger kilometres (RPK) (million)					
- Domestic	4,652	2,846	8,234	7,800	6,914
- International	538	396	913	986	1,334
Total	5,190	3,242	9,147	8,786	8,248
Passengers carried (thousand)					
- Domestic	3,258	1,943	5,831	5,501	4,849
- International	363	262	643	652	864
Total	3,621	2,205	6,474	6,153	5,713
Cargo tonne kilometres (RFTK) (million)					
- Domestic	87	73	168	166	162
- International	9	8	19	15	13
Total	96	81	187	181	175
Capacity					
Available seat kilometres (ASK) (million)					
- Domestic	6,722	4,697	12,226	12,232	11,412
- International	971	814	1,714	1,800	2,334

Total	7,693	5,511	13,940	14,032	13,746

	SIX-MONTH PERIODS ENDED 30 JUNE,		YEARS ENDED 31 DECEMBER,		
	2004	2003	2003	2002	2001
Load Factors					
Passenger load factor (RPK/ASK)					
- Domestic	69%	61%	67%	64%	61%
- International	55%	49%	53%	55%	57%
Overall	67%	59%	66%	63%	60%
Yield					
Yield per RPK (RMB)					
- Domestic	0.57	0.57	0.55	0.50	0.55
- International	0.98	0.87	0.97	0.87	0.71
Overall	0.61	0.61	0.60	0.54	0.58
Fleet					
Total number of aircraft in service at year end/ period end					
- McDonald Douglas	35	35	35	36	37
- Airbus	17	12	12	10	8
- Others	3	6	3	19	27
Total	55	53	50	65	72
Overall utilisation rate (hours per day)					
- Airbus	8.8	7.0	7.8	8.3	7.5
- McDonald Douglas	9.1	7.0	7.8	8.2	8.4
Overall	9.0	7.0	7.8	8.3	7.8

The following table sets forth certain financial information and operating data of the Airline Operations of Xinjiang Airlines Group by geographic region for each of the years in the three-year period ended 31 December, 2003 and the six-month periods ended 30 June, 2003 and 2004:

	SIX-MONTH PERIODS ENDED 30 JUNE,		YEARS ENDED 31 DECEMBER,		
	2004	2003	2003	2002	2001
Traffic					
Revenue passenger kilometres (RPK) (million)					
– Domestic	2,324	1,435	3,941	3,768	3,400
– International	92	54	151	148	148
Total	2,416	1,489	4,092	3,916	3,548
Passengers carried (thousand)					
– Domestic	1,209	721	2,062	1,753	1,510
– International	55	31	86	75	61
Total	1,264	752	2,148	1,828	1,571
Cargo tonne kilometres (RFTK) (million)					
– Domestic	33	28	62	81	62
– International	1	–	1	1	1
Total	34	28	63	82	63
Capacity					
Available seat kilometres (ASK) (million)					
– Domestic	3,527	2,480	5,995	6,105	5,771
– International	195	121	302	331	326
Total	3,722	2,601	6,297	6,436	6,097

	SIX-MONTH PERIODS ENDED 30 JUNE,		YEARS ENDED 31 DECEMBER,		
	2004	2003	2003	2002	2001
Load Factors					
Passenger load factor (RPK/ASK)					

- Domestic	66%	58%	66%	62%	59%
- International	47%	45%	50%	45%	45%
Overall	65%	57%	65%	61%	58%
Yield					
Yield per RPK (RMB)					
- Domestic	0.46	0.45	0.48	0.53	0.55
- International	0.72	0.65	0.69	0.69	0.60
Overall	0.47	0.95	0.48	0.54	0.55
Fleet					
Total number of aircraft in service at year end/ period end					
- Boeing	15	15	15	15	14
- ATR 72 and IL 86	5	5	5	8	8
Total	20	20	20	23	22
Overall utilisation rate (hours per day)					
- Boeing	10.0	7.9	8.8	8.9	10.1
- ATR 72 and IL86	7.8	6.3	7.4	7.1	8.2
Overall	8.9	7.4	8.3	7.7	8.4

OPERATING RESULTS

INTERIM PERIOD FOR THE SIX-MONTH PERIOD ENDED 30 JUNE, 2004 COMPARED TO INTERIM PERIOD FOR THE SIX-MONTH PERIOD ENDED 30 JUNE, 2003

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

Operating revenue

For the first half of 2004, the total traffic revenue was RMB3,391 million, an increase of RMB1,262 million or 59.3% from the same period last year. The increase was primarily due to a 62.4% increase in passenger revenue. The number of passengers carried increased by 64.2% to 3.6 million. Passenger traffic in terms of RPKs increased by 60.1% to 5,190 million.

Passenger revenue was RMB3,187 million, up 62.4% from the same period last year, representing 94.0% of total traffic revenue. The increase was mainly due to increases in traffic volume of 60.1%.

Domestic passenger revenue was RMB2,659 million, up 63.5% from the same period last year. Domestic passenger revenue accounted for 83.4% of overall passenger revenue. The increase in domestic passenger revenue was mainly due to the increases in traffic volume of 63.5% to 4,652 million. The increase in traffic volume was mainly due to the combined effect of the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004 and the PRC government's policies and efforts to attract more investment in the Northeastern

part of the PRC, including Shenyang.

International passenger revenue was RMB528 million, an increase of 47.5% from the same period last year. International passenger revenue accounted for 16.6% of overall passenger revenue. The increase in international passenger was mainly due to the increases in traffic volume of 35.9% to 538 million and passenger yield of 12.6% to RMB0.98. The increase in traffic volume was mainly because of the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004. The increase in passenger yield was mainly the result of the recording of the contributions to the CAAC infrastructure fund as an operating expense instead of being netted off with traffic revenue and an upward adjustment of fare resulting from increased traffic demand with effect from 1 April, 2004.

Cargo and mail revenue was RMB204 million in the first half of 2004, an increase of 22.7% from the same period last year. Cargo and mail revenue accounted for 6.0% of total traffic revenue in the first half of 2004. The increase in cargo and mail revenue was mainly due to increases in traffic volume of 18.5% to 96 million RFTKs and overall yield per RFTK of 7.0% to RMB2.13. The increase in traffic volume was mainly due to the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004. The increase in overall yield per RFTK was mainly due to an increase in fares resulting from increased traffic demand.

Other operating revenue increased by 94.3% to RMB73 million in the first half of 2004. The increase was mainly due to a rise in the aircraft lease income of RMB49 million from leasing certain aircraft to a related party.

Operating expenses

Total operating expenses increased by 20.6% to RMB3,095 million from the same period last year, representing an increase of RMB529 million. The increase was mainly due to increases in fuel costs, landing and navigation fees and commission expenses resulting from increased traffic volume during the first half of 2004.

Flight operations expenses, which accounted for 47.8% of total operating expenses in the first half of 2004, increased by 32.2% to RMB1,481 million. Of these expenses, fuel cost was RMB816 million, up 40.9%, mainly as a result of increases in fuel consumption and fuel prices. Air catering expenses increased by 57.6% to RMB104 million, primarily as a result of an increase in number of passengers carried during the first half of 2004. Labour costs increased by 54.2% to RMB222 million, largely due to an increase in flying hours.

Maintenance expenses which accounted for 13.3% of total operating expenses in the first half of 2004, decreased by 23.9% to RMB412 million. The decrease was mainly due to year 2003 being a peak time for aircraft engine major repairs.

Aircraft and traffic servicing expenses, which accounted for 15.0% of the total operating expenses in the first half of 2004, increased by 45.0% to RMB464 million, reflecting primarily the rise in the number of landing and takeoffs resulting from increased traffic volume during the first half of 2004.

Promotional and sales expenses, which accounted for 7.1% of total operating expenses in the first half of 2004, increased by 32.0% to RMB219 million. The increase was the result of an increase in traffic revenue.

General and administrative expenses, which accounted for 3.7% of the total operating expenses in the first half of 2004, increased by 15.7% to RMB115 million. The increase was mainly due to an increase in the scale of operations during the first half of 2004.

Depreciation and amortization expenses, which accounted for 13.1% of the total operating expenses in the first half of 2004, increased by 26.8% to RMB404 million. The increase was mainly due to the additional depreciation arising from the net revaluation surplus as a result of the revaluation of property, plant and equipment as at 31 December, 2003.

Non-operating income/(expenses)

Interest expense decreased by 37.5% to RMB195 million during the first half of 2004, primarily reflecting the interest saving resulting from the assumption of RMB5,083 million bank loans by CSAHC as at 31 December, 2003.

A net exchange gain of RMB24 million was recorded in the first half of 2004 as compared to a net exchange loss of RMB2 million in the same period last year, mainly due to its Japanese yen denominated borrowings as a result of the depreciation of Japanese yen during the first half of 2004.

Taxation

The taxation amount for the first half of 2003 was nil because the Airline Operations of Northern Airlines Group did not recognise any deferred tax assets in respect of its taxable losses as the Airline Operations of Northern Airlines Group did not forecast any future taxable income to utilise the taxable losses.

As a result of the aforementioned reasons, the Airline Operations of Northern Airlines Group earned a net profit of RMB135 million for the first half of 2004 as compared to a net loss of RMB685 million for the same period last year.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

Operating revenue

For the first half of 2004, the total traffic revenue was RMB1,176 million, an increase of RMB459 million or 64.0% from the same period last year. The increase was primarily due to a 66.7% increase in passenger revenue. The number of passengers carried increased by 68.1% to 1.3 million. Passenger traffic in terms of RPKs increased by 62.3% to 2,416 million.

Passenger revenue was RMB1,126 million, up 66.7% from the same period last year, representing 95.8% of total traffic revenue. The increase was mainly due to an increase in traffic volume of 62.3%.

Domestic passenger revenue was RMB1,059 million, up 65.2% from the same period last year. Domestic passenger revenue accounted for 94.0% of overall passenger revenue. The increase in domestic passenger was mainly due to the increases in traffic volume of 62.0% to 2,324 million and passenger yield of 2.2% to RMB0.46. The increase in traffic volume was mainly due to the combined effect of the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004. The increase in passenger yield was mainly as a result of

recording the contributions to the CAAC infrastructure fund as an operating expense instead of being netted off with traffic revenue with effect from 1 April, 2004.

International passenger revenue was RMB67 million, an increase of 91.4% from the same period last year. International passenger revenue accounted for 6.0% of overall passenger revenue. The increase in international passenger was mainly due to the increases in traffic volume of 70.4% to 92 million and passenger yield of 10.8% to RMB0.72. The increase in traffic volume was mainly because of the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004. The increase in passenger yield was mainly the result of the recording of the contributions to the CAAC infrastructure fund as an operating expense instead of being netted off with traffic revenue and an upward adjustment of fare resulting from increased traffic demand with effect from 1 April, 2004.

Cargo and mail revenue was RMB50 million in the first half of 2004, an increase of 19.7% from the same period last year. Cargo and mail revenue accounted for 4.2% of total traffic revenue in the first half of 2004. The increase in cargo and mail revenue was mainly due to the net effect of an increase in traffic volume of 21.4% to 34 million RFTKs and a decrease in overall yield per RFTK of 4.0% to RMB1.45. The increase in traffic volume was mainly due to the absence of Severe Acute Respiratory Syndrome impact during the first half of 2004. The decrease in overall yield per RFTK was mainly due to the decrease in fares resulting from intensified competition from other airlines and other modes of transportation.

Other operating revenue decreased by 30.6% to RMB39 million in the first half of 2004. The decrease was primarily due to the decrease in aircraft lease income.

Operating expenses

Total operating expenses increased by 24.1% to RMB1,215 million from the same period last year, representing an increase of RMB236 million. The increase was mainly due to increases in fuel costs, maintenance, landing and navigation fees and commission expenses resulting from increased traffic volume during the first half of 2004.

Flight operations expenses, which accounted for 52.6% of total operating expenses in the first half of 2004, increased by 31.3% to RMB639 million. Of these expenses, fuel cost was RMB314 million, up 48.7%, mainly as a result of increases in fuel consumption and fuel prices. Air catering expenses increased by 21.5% to RMB36 million, primarily as a result of an increase in number of passengers carried during the first half of 2004. Labour costs increased by 22.6% to RMB79 million, largely due to an increase in flying hours.

Maintenance expenses which accounted for 10.5% of total operating expenses in the first half of 2004, increased by 16.3% to RMB127 million. The increase was primarily attributable to increases in aircraft overhaul charges and routine maintenance costs resulting from increased flying hours.

Aircraft and traffic servicing expenses, which accounted for 11.0% of the total operating expenses in the first half of 2004, increased by 20.6% to RMB134 million, reflecting primarily the rise in the number of landing and takeoffs resulting from increased traffic volume during the first half of 2004.

Promotional and sales expenses, which accounted for 6.7% of total operating expenses in the first half of 2004, increased by 48.2% to RMB81 million. The increase was the result of an increase in traffic revenue.

General and administrative expenses, which accounted for 5.0% of the total operating expenses in the first half of 2004, increased by 19.1% to RMB61 million. The increase was mainly due to an increase in the scale of operations during the first half of 2004.

Depreciation and amortization expenses, which accounted for 14.2% of the total operating expenses in the first half of 2004, increased by 4.2% to RMB173 million. The increase was mainly due to the additional depreciation arising from the net revaluation surplus as a result of the revaluation of property, plant and equipment as at 31 December, 2003 and new purchases during the first half of 2004.

Non-operating income/(expenses)

Interest expense decreased by 14.7% to RMB69 million during the first half of 2004, primarily reflecting the interest saving resulting from the replacement of higher interest bearing foreign U.S. dollar bank loans with lower interest bearing domestic U.S. dollar bank loans during 2003.

Taxation

The income tax credit for the first half of 2004 was RMB24 million as compared to RMB95 million for the same period of last year. The decrease was mainly due to better performance during the first half of 2004. The Airline Operations of Xinjiang Airlines Group incurred a loss before income tax of RMB70 million for the first half of 2004 as compared to a loss before income tax of RMB290 million for the same period last year.

As a result of the aforementioned reasons, the Airline Operations of Xinjiang Airlines Group incurred a net loss of RMB44 million for the first half of 2004 as compared to a net loss of RMB194 million for the same period last year.

YEAR ENDED 31 DECEMBER, 2003 COMPARED TO YEAR ENDED 31 DECEMBER, 2002

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

Operating revenue

The total traffic revenue was RMB5,857 million in 2003, an increase of RMB700 million or 13.6% from 2002. The increase was primarily due to a 14.3% increase in passenger revenue. The number of passengers carried increased by 5.2% to 6.5 million. Passenger traffic in terms of RPKs increased by 4.1% to 9,147 million.

Passenger revenue was RMB5,446 million, up 14.3% from 2002, representing 93.0% of total traffic revenue. The increase was mainly due to increases in traffic volume of 4.1% and passenger yield of 10.0%.

Domestic passenger revenue was RMB4,559 million, up 16.7% from 2002. Domestic passenger revenue accounted for 83.7% of overall passenger revenue. The

increase in domestic passenger revenue was mainly due to increases in traffic volume of 5.6% to 8,234 million and passenger yield of 10.0% to RMB0.55. The increase in traffic volume was the result of rescheduling of certain major routes in October 2002. Some low yield and load factor routes were suspended and the traffic capacity were allocated to those routes with high yield and load factor. The increase in passenger yield was due mainly to the exemption of the CAAC infrastructure fund and sales tax during the period from 1 May, 2003 to 31 December, 2003.

International passenger revenue was RMB887 million, an increase of 3.5% from 2002. International passenger revenue accounted for 16.3% of overall passenger revenue. The increase in international passenger revenue was mainly due to the net effect of a decrease in traffic volume of 7.4% to 913 million and an increase in passenger yield of 11.5% to RMB0.97. The decrease in traffic volume was the result of suspension of routes to Hong Kong during the period of 1 April, 2003 to 31 December, 2003 because of the outbreak of Severe Acute Respiratory Syndrome and persistently low load factor and yield. The increase in passenger yield per RPK was due mainly to the exemption of the CAAC infrastructure fund and sales tax during the period from 1 May, 2003 to 31 December, 2003.

Cargo and mail revenue was RMB411 million, an increase of 4.9% from 2002. Cargo and mail revenue accounted for 7.0% of total traffic revenue in 2003. The increase in cargo and mail revenue was mainly due to an increase in traffic volume resulting from the introduction of new routes to Japan in October 2002.

Other operating revenue decreased by 17.8% to RMB72 million in 2003. The decrease was primarily due to a drop in the commission income of RMB15 million resulting from the use of the Company's tickets for the flights of the Airline Operations of Northern Airlines Group since 1 January, 2003 under a ticket sale agreement.

Operating expenses

Total operating expenses increased by 7.9% to RMB5,989 million from 2002, representing an increase of RMB438 million. The increase was mainly due to increases in fuel costs, landing and navigation fees, repair and maintenance resulting from increased traffic volume during 2003.

Flight operations expenses, which accounted for 39.0% of total operating expenses in 2003, increased by 6.6% to RMB2,338 million. Of these expenses, fuel cost was RMB1,314 million, up 6.4%, mainly as a result of an increase in fuel prices caused by the outbreak of Iraq war. Air catering expenses decreased by 15.1% to RMB174 million during 2003 primarily as a result of stricter cost control. Labour costs increased by 16.8% to RMB376 million largely due to an increase of headcount and the introduction of double pay during 2003.

Maintenance expenses which accounted for 17.4% of total operating expenses in 2003, increased by 4.6% to RMB1,039 million. The increase was mainly due to year 2003 being a peak time for aircraft engine major repairs.

Aircraft and traffic servicing expenses, which accounted for 12.7% of the total operating expenses in 2003, increased by 5.9% to RMB760 million, reflecting primarily an increase in the charge rate for domestic landing and navigation fees effective September 2002.

Promotional and sales expenses, which accounted for 7.1% of total operating expenses in 2003, increased by 2.3% to RMB425 million. The increase was the result of an increase in traffic revenue.

General and administrative expenses, which accounted for 3.8% of the total operating expenses in 2003, increased by 3.1% to RMB226 million. The increase was mainly due to an increase in labour costs resulting from the introduction of double pay during 2003.

Depreciation and amortization expenses, which accounted for 10.8% of the total operating expenses in 2003, decreased by 2.5% to RMB646 million. The decrease was mainly due to the reduction associated with fully depreciated property, plant and equipment which outweighed the additional depreciation on those property, plant and equipment purchased during 2003.

Others which represented impairment losses on aircraft and accounted for 9.2% of the total operating expenses, increased by 58.7% to RMB555 million in 2003. During 2003, the Airline Operations of Northern Airlines entered into agreements with an independent third party to dispose of its twenty-three McDonald Douglas 82 aircraft during the years 2003 to 2007 and then immediately lease back the aircraft under operating leases for a period of one to two years. Accordingly, the Airline Operations of Northern Airlines Group recorded an impairment loss for the year ended 31 December 2003 of approximately RMB555 million, being the excess of the carrying amount of the aircraft over their recoverable amount as determined based on the agreed selling prices of the aircraft and estimated future cash flows from operating the aircraft prior to their disposals.

Non-operating income/(expenses)

Interest income decreased by 54.7% to RMB13 million in 2003. This is mainly due to the combined effect of decreases in average cash balances and bank deposit interest rates.

Interest expense decreased by 10.5% to RMB627 million in 2003, primarily reflecting the combined effect of scheduled debt repayments and the replacement of certain Renminbi denominated bank loans with US$ denominated bank loans with lower interest rates.

During 2003, the Airline Operations of Northern Airlines Group recorded a net exchange loss of RMB218 million predominantly due to its Japanese Yen denominated borrowings as a result of the Japanese Yen appreciation. Such amount comprised mostly unrealized translation gain.

In connection with the Acquisition, the property, plant and equipment of the Airline Operations of Northern Airlines Group as at 31 December, 2003 were revalued on a replacement cost basis as required by the relevant PRC rules and regulations. As a result of the revaluation, a deficit on revaluation of RMB492 million was resulted during 2003.

Taxation

The income tax for 2003 was RMB117 million as compared to nil for 2002. This was because the Airline Operations of Northern Airlines Group did not recognise any deferred tax assets in respect of its taxable losses in 2002 as the Airline Operations of Northern Airlines Group did not forecast any future

taxable income to utilise the taxable losses.

As a result of the aforementioned reasons, the Airline Operations of Northern Airlines Group incurred a net loss of RMB1,234 million for 2003 as compared to a net loss of RMB1,141 million for 2002.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

The total traffic revenue was RMB2,075 million in 2003, a decrease of RMB140 million or 6.3% from 2002. This decrease was primarily due to a 5.8% decrease in passenger revenue.

Passenger revenue was RMB1,982 million, down 5.8% from 2002, representing 95.5% of total traffic revenue. The decrease was mainly due to the net effect of an increase in traffic volume of 4.5% and a decrease in passenger yield of 11.1%.

Domestic passenger revenue was RMB1,878 million, down 6.2% from 2002. Domestic passenger revenue accounted for 94.8% of overall passenger revenue. The decrease in domestic passenger revenue was mainly due to the net effect of an increase in traffic volume of 4.6% to 3,941 million and a decrease in passenger yield of 9.4% to RMB0.48. The increase in traffic volume was the result of a quick and strong recovery of aviation market during the second half year of 2003 subsequent to the recovery from Severe Acute Respiratory Syndrome. The decrease in passenger yield was due mainly to the entry of other airlines which induced the price competition.

International passenger revenue was RMB104 million, an increase of 2.0% from 2002. International passenger revenue accounted for 5.2% of overall passenger revenue. The increase in international passenger revenue was mainly due to the net effect of an increase in traffic volume of 2.0% to 151 million. The passenger yield remained at RMB0.69.

Cargo and mail revenue was RMB93 million, a decrease of 16.6% from 2002. Cargo and mail revenue accounted for 4.5% of total traffic revenue in 2003. The decrease in cargo and mail revenue was mainly due to a decrease in traffic volume resulting from the disposal of three IL86 aircraft during 2003. The overall yield per RFTK increased by 8.8% to RMB1.48 because of an upward adjustment of fare on certain routes to Russia as a result of increased demand.

Other operating revenue decreased by 44.4% to RMB77 million in 2003. The decrease was due to decrease in the aircraft lease income resulting from the disposal of three IL86 aircraft.

Operating expenses

Total operating expenses increased by 1.6% to RMB2,191 million from 2002, representing an increase of RMB35 million. The increase was mainly due to increases in fuel costs, landing and navigation fees, repair and maintenance resulting from increased traffic volume during 2003.

Flight operations expenses, which accounted for 48.5% of total operating expenses in 2003, increased by 2.5% to RMB1,062 million. Of these expenses, fuel cost was RMB481 million, up 1.8%, mainly as a result of an increase in fuel prices caused by the outbreak of Iraq war. Air catering expenses decreased by 7.9% to RMB70 million during 2003 primarily as a result of stricter cost

control. Labour costs increased by 45.0% to RMB134 million largely due to increases in headcount and salary level by 20% in late 2002.

Maintenance expenses which accounted for 11.4% of total operating expenses in 2003, increased by 23.2% to RMB250 million. The increase was primarily attributable to an increase in utilization rates of the aircraft.

Aircraft and traffic servicing expenses, which accounted for 12.6% of the total operating expenses in 2003, increased by 34.3% to RMB276 million, reflecting primarily an increase in the charge rate for domestic landing and navigation fees effective September 2002.

Promotional and sales expenses, which accounted for 6.3% of total operating expenses in 2003, increased by 17.2% to RMB138 million. The increase was mainly the result of an increase in commission and bonus paid to sales agents due to intensified competition.

General and administrative expenses, which accounted for 5.4% of the total operating expenses in 2003, increased by 21.2% to RMB119 million. The increase was mainly due to an increase in staff cost resulting from increases in headcount and salary level by 20% in late 2002.

Depreciation and amortization expenses, which accounted for 15.8% of the total operating expenses in 2003, decreased by 1.7% to RMB346 million. The decrease was mainly due to the reduction associated with fully depreciated property, plant and equipment which outweighed the additional depreciation on those property, plant and equipment purchased during 2003.

Non-operating income/(expenses)

Interest expense increased by 9.5% to RMB201 million in 2003, primarily reflecting a termination charge paid for early repayment of certain overseas U.S. dollar loans amounting to RMB43 million, the effect of which was partly offset by interest saving from scheduled debt repayments.

In connection with the Acquisition, the property, plant and equipment of the Airline Operations of Xinjiang Airlines Group as at 31 December, 2003 were revalued on a replacement cost basis as required by the relevant PRC rules and regulations. As a result of the revaluation, a deficit on revaluation of RMB235 million was resulted during 2003.

Taxation

The income tax credit for 2003 was RMB156 million as compared to a taxation expense of RMB9 million for 2002. This was mainly because the Airline Operations of Xinjiang Airlines Group incurred a loss before income tax of RMB481 million for 2003 as compared to a profit before income tax of RMB12 million for 2002.

As a result of the aforementioned reasons, the Airline Operations of Xinjiang Airlines Group incurred a net loss of RMB299 million for 2003 as compared to a net profit of RMB3 million for 2002.

YEAR ENDED 31 DECEMBER 2002 COMPARED TO YEAR ENDED 31 DECEMBER 2001

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

Operating revenue

The total traffic revenue was RMB5,157 million in 2002, an increase of RMB51 million or 1.0% from 2001. This increase was primarily due to 18.0% or RMB60 million increase in cargo and mail revenue.

Passenger revenue was RMB4,765 million, down slightly by 0.2% from 2001, representing 92.4% of total traffic revenue. The decrease was mainly due to the decrease in passenger yield of 6.9% to RMB0.54.

Domestic passenger revenue was RMB3,908 million, up slightly by 2.2% from 2001. Domestic passenger revenue accounted for 82.0% of total passenger revenue. The increase in domestic passenger revenue was mainly due to the net effect of an increase in traffic volume of 12.8% to 7,800 million and a decrease in passenger yield of 9.1% to RMB0.50. The increase in traffic volume was the result of the continued PRC government's effort in stimulating domestic consumption which increased traffic demand. The decrease in passenger yield was mainly as a result of increased competition among the PRC airlines.

International passenger revenue was RMB857 million, down 9.9% from 2001. International passenger revenue accounted for 18.0% of overall passenger revenue. The decrease in international passenger revenue was mainly due to the net effect of a decrease in traffic volume of 26.1% to 986 million and an increase in passenger yield of 22.5% to RMB0.87. In January 2002, the Airline Operations of Northern Airlines Group suspended certain low yield and load factor international routes. This accounted for a decrease in traffic volume but an increase in passenger yield.

Cargo and mail revenue was RMB392 million, an increase of 18.0% from 2001. Cargo and mail revenue accounted for 7.6% of total traffic revenue in 2002. The increase in cargo and mail revenue was mainly to an increase in overall yield per RFTK of 14.3% to RMB2.16 resulting from the suspension of certain routes with low yield as mentioned above.

Other operating revenue decreased by 11.0% to RMB87 million in 2002. The decrease was primarily due to the net effect of a drop in aircraft wet lease income of RMB34 million and an increase in maintenance service income of RMB17 million.

Operating expenses

Total operating expenses increased by 4.2% to RMB5,552 million from 2002, representing an increase of RMB223 million. The increase was mainly due to the net effect of increases in landing and navigation fees and repair and maintenance, and a decrease in impairment loss on aircraft.

Flight operations expenses, which accounted for 39.6% of total operating expenses in 2002, increased by 3.3% to RMB2,194 million. Of these expenses, fuel cost was RMB1,236 million, down 3.8%, mainly as a result of a decrease in fuel

prices. Air catering expenses increased by 9.6% to RMB205 million during 2002 primarily as a result of an increase in passenger carried. Labour costs increased by 15.8% to RMB322 million largely due to an increase of flying hours.

Maintenance expenses which accounted for 17.9% of total operating expenses in 2002, increased by 32.2% to RMB994 million. The increase was mainly due to year 2002 being a peak time for aircraft engine major repairs.

Aircraft and traffic servicing expenses, which accounted for 12.9% of the total operating expenses in 2002, increased by 7.4% to RMB717 million, reflecting primarily an increase in the charge rate for domestic landing and navigation fees effective September 2002.

Promotional and sales expenses, which accounted for 7.5% of total operating expenses in 2002, increased by 1.7% to RMB416 million. The increase was the result of an increase in operation scale.

General and administrative expenses, which accounted for 3.9% of the total operating expenses in 2002, increased by 34.3% to RMB219 million. The increase was mainly due to an increase in labour costs resulting from salary increment.

Depreciation and amortization expenses, which accounted for 11.9% of the total operating expenses in 2002, decreased by 2.4% to RMB662 million. The decrease was mainly due to the reduction associated with fully depreciated property, plant and equipment which outweighed the additional depreciation on those property, plant and equipment purchased during 2002.

Others which mainly represented impairment losses on aircraft and accounted for 6.3% of the total operating expenses, decreased by 34.7% to RMB350 million. The decrease was mainly due the absence of lump sum housing subsidy to eligible employees during 2002. Pursuant to the housing policy executed by the Airline Operations of Northern Airlines Group, the Airline Operations of Northern Airlines Group made payments totalling approximately RMB102 million to eligible employees in 2001 for the purpose of subsidising the employees in purchasing their houses.

Non-operating income/(expenses)

Interest income decreased by 52.3% to RMB29 million in 2002. This was mainly due to the combined effect of decreases in average cash balances and bank deposit interest rates.

Interest expense decreased by 3.3% to RMB701 million in 2002, primarily reflecting the combined effect of scheduled debt repayments and the decrease in interest rates on certain floating rates obligation as market interest rates dropped.

During 2002, the Airline Operations of Northern Airlines Group recorded a net exchange loss of RMB151 million as compared to a net exchange gain of RMB232 million in 2001. The net exchange loss in 2002 was predominantly due to its Japanese Yen denominated borrowings as a result of the Japanese Yen appreciation. Such amount comprised mostly unrealized translation gain.

Taxation

The taxation amount was small for both 2002 and 2001. This was because the

Airline Operations of Northern Airlines Group did not recognise any deferred tax assets in respect of its taxable losses in both years as the Airline Operations of Northern Airlines Group did not forecast any future taxable income to utilise the taxable losses.

As a result of the aforementioned reasons, the Airline Operations of Northern Airlines Group incurred a net loss of RMB1,141 million for 2002 as compared to a net loss of RMB502 million for 2001.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

Operating revenue

The total traffic revenue was RMB2,215 million in 2002, an increase of RMB167 million or 8.2% from 2001. This increase was primarily due to the 7.9% or RMB154 million increase in passenger revenue.

Passenger revenue was RMB2,104 million, up by 7.9% from 2001, representing 95.0% of total traffic revenue. The increase was mainly due to an increase in traffic volume of 10.4%.

Domestic passenger revenue was RMB2,002 million, increased by 7.6% from 2001. Domestic passenger revenue accounted for 95.2% of overall passenger revenue. The increase in domestic passenger revenue was mainly due to the net effect of an increase of traffic volume of 10.8% to 3,768 million and a decrease in passenger yield of 3.6% to RMB0.53. The increase in traffic volume was the result of the continued PRC government's effort in stimulating domestic consumption which increased traffic demand. The decrease in passenger yield was mainly as a result of increased competition among the PRC airlines.

International passenger revenue was RMB102 million, up 14.6% from 2001. International passenger revenue accounted for 4.8% of overall passenger revenue. The increase in international passenger revenue was mainly due to an increase in passenger yield of 15.0% to RMB0.69 because of increased traffic demand.

Cargo and mail revenue was RMB111 million, an increase of 14.0% from 2001. Cargo and mail revenue accounted for 5.0% of total traffic revenue in 2002. The increase in cargo and mail revenue was mainly due to the net effect of an increase in traffic volume of 30.2% to 82 million and a decrease in overall yield per RFTK of 11.7% to RMB1.36 resulting from the intensified competition from other airlines.

Other operating revenue increased by 9.1% to RMB138 million in 2002. The increase was primarily due to an increase in ground services income subsequent to the introduction of ground services in 2002.

Operating expenses

Total operating expenses increased by 13.2% to RMB2,156 million from 2001, representing an increase of RMB251 million. The increase was mainly due to the impairment loss recognised on aircraft and other flight equipment of RMB132 million.

Flight operations expenses, which accounted for 48.1% of total operating expenses in 2002, increased by 3.4% to RMB1,036 million. Of these expenses, fuel cost was RMB473 million, down 11.9%, mainly as a result of a decrease in fuel

prices. Air catering expenses increased by 10.1% to RMB76 million during 2002 primarily as a result of an increase in passenger carried. Labour costs increased by 8.2% to RMB92 million largely due to an increase of flying hours.

Maintenance expenses which accounted for 9.4% of total operating expenses in 2002, increased by 1.4% to RMB203 million. The increase was primarily attributable to an increase in flight hours.

Aircraft and traffic servicing expenses, which accounted for 9.5% of the total operating expenses in 2002, increased by 1.6% to RMB205 million, reflecting primarily an increase in the charge rate for domestic landing and navigation fees effective September 2002.

Promotional and sales expenses, which accounted for 5.4% of total operating expenses in 2002, increased by 17.4% to RMB117 million. The increase was the result of an increase in revenue.

General and administrative expenses, which accounted for 4.6% of the total operating expenses in 2002, increased by 13.7% to RMB98 million. The increase was mainly due to an increase in labour costs resulting from salary increment.

Depreciation and amortization expenses, which accounted for 16.3% of the total operating expenses in 2002, increased by 11.8% to RMB352 million. This increase was primarily as a result of addition of one Boeing 757-200 aircraft and two 757-200 jet engines during 2002.

Others which mainly represented the impairment loss on aircraft accounted for 6.7% of the total operating expenses in 2002. In accordance with certain regulations announced by the CAAC in 2002, IL86 aircraft were not allowed to fly unless they were installed with additional security modules starting from 1 January, 2003. After having evaluated the costs and benefits, management decided to ground the aircraft. Management assessed the recoverable amount of the three IL86 aircraft and their related flight equipment and spare parts. Impairment loss of approximately RMB132 million was provided for to write down the carrying value of the aircraft to their estimated net realisable value during 2002.

Non-operating income/(expenses)

Interest expense decreased by 2.7% to RMB184 million in 2002, primarily reflecting the effect of scheduled debt repayments.

Taxation

The income tax for 2002 was RMB9 million as compared to RMB36 million for 2001. The decrease was mainly due to a decrease in profit before income tax.

As a result of the aforementioned reasons, the Airline Operations of Xinjiang Airlines Group had a net profit of RMB3 million for 2002 as compared to a net profit of RMB41 million for 2001.

LIQUIDITY

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

As of 30 June 2004, the Airline Operations of Northern Airlines Group's borrowings totalled RMB9,044 million. The majority of such borrowings were

denominated in United States dollars and, to a smaller extent, in Japanese yen and Renminbi, with a significant portion being fixed interest rate borrowings ranging from 5.94% to 8.18%. Of such borrowings, RMB1,830 million, RMB1,294 million, RMB2,310 million, RMB1,279 million and RMB2,331 million will be repayable in 2005, 2006, 2007, 2008, 2009 and thereafter respectively.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

As of 30 June 2004, the Airline Operations of Xinjiang Airlines Group's borrowings totalled RMB2,792 million. The majority of such borrowings were denominated in United States dollars and Renminbi, with a significant portion being fixed interest rate borrowings ranging from 5.77% to 7.63%. Of such borrowings, RMB1,057 million, RMB320 million, RMB314 million, RMB222 million and RMB879 million will be repayable in 2005, 2006, 2007, 2008, 2009 and thereafter respectively.

FINANCIAL RISK MANAGEMENT POLICY

In the normal course of business, each of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group is exposed to fluctuations in foreign currencies and jet fuel prices. Their exposure to foreign currencies is mainly attributable to their debts denominated in foreign currencies. Depreciation or appreciation of the Renminbi against foreign currencies could affect results and financial position of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group significantly, as their foreign currency payments generally exceed its foreign currency receipts. Both the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group are not able to hedge their foreign currency exposure effectively other

than by retaining their 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 authorized PRC banks.

Both the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group are required to procure a majority of its jet fuel domestically at PRC spot market prices. There are currently no effective means available to either the Airline Operations of Northern Airlines Group or the Airline Operations of Xinjiang Airlines Group for managing their exposure associated with the fluctuations in domestic jet fuel prices.

CHARGES ON ASSETS

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

As of 30 June 2004, certain aircraft of the Airline Operations of Northern Airlines Group with an aggregate carrying value of approximately RMB6,941 million were mortgaged under certain loan and finance leases.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

As of 30 June 2004, certain aircraft of the Airline Operations of Xinjiang Airlines Group with an aggregate carrying value of approximately RMB1,689 million were mortgaged under certain loan agreements.

COMMITMENTS AND CONTINGENCIES

THE AIRLINE OPERATIONS OF NORTHERN AIRLINES GROUP

As of 30 June 2004, the Airline Operations of Northern Airlines Group had capital commitments of approximately RMB909 million. Of such amounts, RMB860 million was related to the acquisition of aircraft and related flight equipment. The remaining amount of RMB49 million was related to the Airline Operations of Northern Airlines Group's office facilities and equipment, overhaul and maintenance bases and training facilities.

The details of the contingencies of the Airline Operations of Northern Airlines Group was set out on page 105 of the Circular.

THE AIRLINE OPERATIONS OF XINJIANG AIRLINES GROUP

As of 30 June 2004, the Airline Operations of Xinjiang Airlines Group had capital commitments of approximately RMB12 million. They were related to the Airline Operations of Xinjiang Airlines Group's office facilities and equipment, overhaul and maintenance bases and training facilities.

As at 30 June, 2004, the Airline Operations of Xinjiang Airlines Group was not subject to any major contingent liabilities.

OPERATING RESULTS OUTLOOK

The Directors view the Acquisition as a significant driver to improving its operating efficiency and competitiveness.

Via a successful integration, the Directors aim to achieve the following improvement in the Company's operating results:

BENCHMARK	2005 (PRO FORMA)(1)	2004 (PRO FORMA)(1)	(ACT
Total RTK (million)	7,300	6,550	3
Total passenger carried (million)	45	40	
Total RFTK (million)	0.76	0.69	
Average daily utilization (hours)	9.3	9.2	
Overall load factor (%)	63.2	62.8	
Passenger load factor (%)	70	69.3	

(1) Refers to pro forma combination of the Listed Group, the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group.

(2) Refers to the Listed Group's actual 2003 result.

The following is the text of the letter, summary of values and valuation certificate received from Chesterton, an independent property valuer, prepared for the purpose of incorporation in this Circular, in connection with their valuation of the property interests held and to be acquired by the Group as at 31 August, 2004.

[CHESTERTON PETTY LOGO]

International Property Consultants

Chesterton Petty Limited
16/F CITIC Tower
1 Tim Mel Avenue
Central
Hong Kong

Tel 2840 1177
Fax 2840 0600

12 November, 2004

The Directors
China Southern Airlines Company Limited
Baiyun International Airport
Guangzhou City
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to us to value the property interests to be acquired by China Southern Airlines Company Limited (hereinafter referred to as the "Company") from China Southern Air Holding Company ("CSAHC") which are originally held by China Northern Airlines Company and Xinjiang Airlines Company and those property interests held by the Company and its principal subsidiaries and associated company (hereinafter together referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of the property interests as at 31 August, 2004.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the owner sells the property interest in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests, we have assumed that, unless otherwise stated, CSAHC and its subsidiaries and the Company have an enforceable title to each of the property interests to be acquired and those held by the Group, respectively, and have free and uninterrupted rights to use, occupy or assign the property interests for the whole of the respective unexpired terms as granted. In the course of our valuation to the properties held by the Group in the PRC, we have also assumed that, unless otherwise stated, transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the advice given by the Group and its PRC legal advisers, Z & T Law Firm, on the PRC laws regarding the title to the properties.

Due to the specific purposes for which most of the buildings and structures to be acquired in Group I and those held by the Group in Groups IV and V have been constructed, there are no readily identifiable market comparables available, thus the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define depreciated replacement cost to be our opinion of the land value in its existing use together with an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

We have valued the property interest in Group VI by using "Direct Comparison Approach" with the benefit of vacant possession and by reference to comparable sales evidence as available in the market.

Property interests under construction in Groups II and VII have been valued on the basis of their prevailing costs level and status of construction as at the date of valuation. We have assumed that all consents, approvals and licences from the relevant government authorities for such constructions and related development proposals have been granted without any onerous conditions or undue delay which might affect their values.

The properties in Group III which are to be rented by the Company and those in Groups VIII which are rented by the Group in the PRC and overseas have been assigned no commercial value due to the short term nature or the prohibition against assignment or sub-letting, or lack of substantial profit rent.

In valuing the property interests, we have complied with the requirements contained within the relevant provisions as stipulated in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except to those in respect of which waiver in respect of Rule 5.06 of the Listing Rules has been applied for due to the large number of land and buildings involved in the Acquisition.

We have been provided with copies of extracts of title documents relating to the property interests. However, we have not inspected the original documents to verify the ownership or to verify any amendments which may not appear on the copies handed to us. We have relied to a considerable extent on information given by the Group and the legal opinion of the Group's PRC legal advisers and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, identification of the property, development proposals, completion dates of buildings, floor and site areas, construction costs incurred, attributable interests and all other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the properties and we have assumed that the site and floor areas shown on the documents handed to us are correct.

We have inspected the exteriors and, where possible, the interiors of the properties. However, we have not carried out any site investigations to determine the suitability of the ground conditions and the services etc, for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation, or any other structural defects. No test has been carried out to any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all money amounts are stated in Renminbi. The exchange rates used in calculating the values of the property interests in Groups IV and V into Renminbi, being AUD1=RMB5.849 and Euro1=RMB10.086 and they have no significant fluctuation between the date of valuation and the date of this letter.

We enclose herewith a summary of values and valuation certificate.

Yours faithfully
For and on behalf of
CHESTERTON PETTY LIMITED
CHARLES C K CHAN
Chartered Estate Surveyor
MSc FRICS FHKIS MCIArb RPS(GP)
Executive Director

Note: Charles C K Chan, MSc, FRICS, FHKIS, MCIArb, RPS (GP), has been a qualified valuer with Chesterton since June 1987 and has about 19 years'

experience in the valuation of properties in Hong Kong and extensive experience in the valuation of properties in the People's Republic of China and the Asia Pacific regions.

SUMMARY OF VALUES

	PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAPITAL VALUE ATTRIBUTABLE TO THE GROUP AS AT 31 AUGUST, 2004 RMB
GROUP I – PROPERTIES TO BE ACQUIRED BY THE COMPANY FROM CSAHC				
1.	Various properties to be acquired by the Company from China Northern Airlines Company in Shenyang	132,250,000	100%	132,250,000
2.	Various properties to be acquired by the Company from China Northern Airlines Company in Harbin	138,270,000	100%	138,270,000
3.	Various properties to be acquired by the Company from China Northern Airlines Company in Dalian	39,850,000	100%	39,850,000
4.	Various properties to be acquired by the Company from China Northern Airlines Company in Changchun	47,440,000	100%	47,440,000
5.	Various properties to be acquired by the Company from China Northern Airlines Company in Chaoyang	5,120,000	100%	5,120,000
6.	Various properties to be acquired by the Company from Xinjiang Civil Aviation Property Management Ltd in Urumqi	No commercial value	51.8%	No commercial value
7.	Various properties to be acquired by the Company from Xinjiang Airlines Company in Urumqi	406,370,000	100%	406,370,000

SUB-TOTAL:	769,300,000	769,300,000

PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAPITAL VALUE ATTRIBUTABLE TO THE GROUP AS AT 31 AUGUST, 2004 RMB
GROUP II - PROPERTIES UNDER CONSTRUCTION TO BE ACQUIRED BY THE COMPANY FROM CSAHC			
8. Various properties to be acquired by the Company from Xinjiang Civil Aviation Property Management Ltd in Urumqi	No commercial value	51.8%	No commercial value
9. Various properties to be acquired by the Company from Xinjiang Airlines Company in Urumqi	263,000	100%	263,000
SUB-TOTAL:	263,000		263,000
GROUP III - PROPERTIES TO BE RENTED BY THE COMPANY FROM CSAHC			
10. Various properties to be rented by the Company from CSAHC	No commercial value	100%	No commercial value
SUB-TOTAL:	NIL		NIL
GROUP IV - PROPERTIES HELD BY THE GROUP IN THE PRC			
11. Various properties held by China Southern Airlines Company Limited Guangzhou Headquarters	383,290,000	100%	383,290,000
12. Various properties held by China Southern Airlines Company Limited in Henan	110,210,000	100%	110,210,000
13. Various properties held by China Southern Airlines Company Limited in Hubei	54,060,000	100%	54,060,000

PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAPITAL VALUE ATTRIBUTABLE TO THE GROUP AS AT 31 AUGUST, 2004 RMB
14. Various properties held by China Southern Airlines Company Limited in Hunan	169,480,000	100%	169,480,000
15. Various properties held by China Southern Airlines Company Limited in Shenzhen	74,640,000	100%	74,640,000
16. Various properties held by China Southern Airlines Company Limited in Hainan	48,211,000	100%	48,211,000
17. Various properties held by China Southern Airlines (Group) Zhuhai Helicopter Company Limited	2,110,000	100%	2,110,000
18. Various properties held by Xiamen Airlines Company Limited (Xiamen Airlines)	126,880,000	60%	76,128,000
19. Various properties held by Southern Airlines (Group) Shantou Airlines Company Limited	115,870,000	60%	69,520,000
20. Various properties held by Guangxi Airlines Company Limited	24,140,000	60%	14,484,000
21. Various properties held by Zhuhai Airlines Company Limited	67,530,000	60%	40,520,000
22. Various properties held by Guizhou Airlines Company Limited	No commercial value	60%	No commercial value
23. Various properties held by Guangzhou Nanland Air Catering Company Limited	No commercial value	51%	No commercial value

PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAPITAL VALUE ATTRIBUTABLE TO THE GROUP AS AT 31 AUGUST, 2004 RMB
24. A property held by Guangzhou Aviation Hotel	57,670,000	90%	51,900,000
25. Various properties held by China Southern Airlines Company Limited Operation Department	16,030,000	100%	16,030,000
26. Various properties held by China Southern Airlines Company Limited Zhuhai Flight Simulator Training Centre	156,070,000	100%	156,070,000
SUB-TOTAL:	1,406,191,000		1,266,653,000
GROUP V - PROPERTIES HELD BY THE GROUP IN WESTERN AUSTRALIA			
27. Various properties held by China Southern West Australian Flying College Pty Ltd.	12,120,000	65%	7,878,000
SUB-TOTAL:	12,120,000		7,878,000
GROUP VI - PROPERTIES HELD BY THE GROUP IN THE NETHERLANDS			
28. Five residential units held by the Company in Amestelveen, Noord-Holland, The Netherlands	13,210,000	100%	13,210,000
SUB-TOTAL:	13,210,000		13,210,000

	PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAP ATTR THE 31 A
GROUP VII – PROPERTIES HELD UNDER CONSTRUCTION BY THE GROUP IN THE PRC				
29.	Various properties held under construction by China Southern Airlines Company Limited Guangzhou Headquarters	1,559,830,000	100%	1,5
30.	Various properties held under construction by Xiamen Airlines	No commercial value	60%	No
31.	A property held under construction by Southern Airlines (Group) Shantou Airlines Company Limited	4,810,000	60%	
32.	A parcel of land held under construction by Zhuhai Airlines Company Limited	7,200,000	60%	
33.	Various properties held under construction by Guizhou Airlines Company Limited	No commercial value	60%	No
34.	Various properties held under construction by Guangzhou Baiyun International Logistic Company Ltd.	No commercial value	61%	No
	SUB-TOTAL:	1,571,840,000		1,5

	PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAP ATTR THE 31 A
GROUP VIII – PROPERTIES RENTED BY THE GROUP				
35.	Various properties rented by China Southern Airlines Company Limited Guangzhou Headquarters	No commercial value	100%	No

36.	Various properties rented by China Southern Airlines Company Limited in Henan	No commercial value	100%	No
37.	Various properties rented by China Southern Airlines Company Limited in Hubei	No commercial value	100%	No
38.	Various properties rented by China Southern Airlines Company Limited in Shenzhen	No commercial value	100%	No
39.	Various properties rented by China Southern Airlines (Group) Zhuhai Helicopter Company Limited	No commercial value	100%	No
40.	Various properties rented by Xiamen Airlines	No commercial value	60%	No
41.	Various properties rented by Southern Airlines (Group) Shantou Airlines Company Limited	No commercial value	60%	No
42.	Various properties rented by Guangxi Airlines Company Limited	No commercial value	60%	No
43.	Various properties rented by Zhuhai Airlines Company Limited	No commercial value	60%	No
44.	Various properties rented by Guizhou Airlines Company Limited	No commercial value	60%	No

	PROPERTY	OPEN MARKET VALUE IN EXISTING STATE AS AT 31 AUGUST, 2004 RMB	INTEREST ATTRIBUTABLE TO THE GROUP	CAP ATTR THE 31 A
45.	A property rented by Southern Chinab International Aviation & Travel Services Company	No commercial value	90%	No
46.	Various properties rented by China Southern Airlines Company Limited Overseas	No commercial value	100%	No

	Offices			
47.	Various properties rented by China Southern Airlines Operation Department	No commercial value	100%	No
	SUB-TOTAL:	NIL		
	TOTAL:	3,772,924,000		3,

VALUATION CERTIFICATE

GROUP I – PROPERTIES TO BE ACQUIRED BY THE COMPANY FROM CSAHC

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	OPEN MA IN EXISTI 31 AUGU RM
1.	Various properties to be acquired by the Company from China Northern Airlines Company in Shenyang	The property comprises 27 various operational and ancillary buildings and various structures completed in various stages between 1989 and 2000 with a total gross floor area of approximately 80,778.39 sq.m. (869,499 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Office 19,757.70 / 212,672 Warehouses 25,556.30 / 275,088 Ancillary buildings and structures 35,464.39 / 381,739 Total: 80,778.39 / 869,499 The land upon which the properties currently erected comprises 9 parcels of land with a total area of 134,356.36 sq.m.	The properties are occupied by China Northern Airlines Company as headquarters purposes.	1

(1,446,212 sq.ft.).

The land use rights of the properties are held for a term of 49 years from 26 August, 2004 to 1 January, 2053.

Notes:

(1) Pursuant to the land use rights leasing agreement entered into between the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) CSAHC has obtained the authorized land use rights of 9 parcels of land with a total area of approximately 134,356.36 sq.m.

(ii) China Northern Airlines has obtained the Building Ownership Certificates for 27 buildings.

(iii) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(iv) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(v) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(vi) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the

properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	OPEN MA IN EXISTI 31 AUGU RM
2.	Various properties to be acquired by the Company from China Northern Airlines Company in Harbin	The property comprises 6 various operational and ancillary buildings and various structures completed in various stages between 1989 and 1999 with a total gross floor area of approximately 36,925.40 sq.m. (397,465 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA: Office 27,132.35 sq.m. 292,053 sq.ft.; Ancillary buildings and structures 9,793.05 sq.m. 105,412 sq.ft.; Total: 36,925.40 sq.m. 397,465 sq.ft. The land upon which the properties currently erected comprises 8 parcels of land with a total area of 289,647.90 sq.m. (3,117,770 sq.ft.). The land use rights of the properties are held for terms of 49 years from 26 August, 2004 to 1 January, 2053 and 39 years expiring on 1 January, 2043.	The properties are occupied by China Northern Airlines Company for airport services, aircraft maintenance works and offices purposes.	13

Notes:

(1) Pursuant to the land use rights leasing agreement entered into between the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) CSAHC has obtained the authorized land use rights of 8 parcels of land with a total area of approximately 289,647.90 sq.m.

(ii) China Northern Airlines has obtained the Building Ownership Certificates for 6 buildings.

(iii) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(iv) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(v) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(vi) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	OPEN MA IN EXISTI 31 AUGU RM
3.	Various properties to be acquired by the Company from China Northern Airlines Company in Dalian	The property comprises 2 various operational and ancillary buildings and various structures completed in various stages between 1995 and 1997 with a total gross floor area of approximately 16,488.34 sq.m. (177,480 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA: Office 16,488.34 sq.m. (177,480 sq.ft.); Total: 16,488.34 sq.m. (177,480 sq.ft.) The land upon which the properties currently erected comprises 1 parcels of land with a total area of 14403.40 sq.m. (155,038 sq.ft.). The land use rights of the properties are held for a term of 39 years commencing 26 August, 2004.	The properties are occupied by China Northern Airlines Company for office and guest house purposes.	39,8

Notes:

(1) Pursuant to the land use rights leasing agreement entered into between the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser,

which contains, inter alia, the following information:

(i) CSAHC has obtained the authorized land use rights of 1 parcel of land with a total area of approximately 14,403.40 sq.m.

(ii) China Northern Airlines has obtained the Building Ownership Certificates for 2 buildings.

(iii) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(iv) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(v) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(vi) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULAR OF OCCUPAN
4. Various properties to be acquired by the Company from China Northern Airlines	The property comprises 16 various operational and ancillary buildings and various structures completed in various	The properties are China Northern Airl for offices, and wa

Company in Changchun	stages between 1975 and 2002 with a total gross floor area of approximately 33,656.96 sq.m. (362,284 sq.ft.). Details of gross floor areas of the properties are listed as follows: The land upon which the properties currently erected comprises 3 parcels of land with a total area of 160,106.30 sq.m. (1,723,384 sq.ft.). The land use rights of the properties are held for terms of 49 years from 26 August, 2004 to 1 January, 2053 and 37 years expiring on 1 January, 2053.	purposes.

USE	APPROXIMATE GROSS FLOOR AREA	
	sq.m.	sq.ft.
Office	21,145.94	227,615
Warehouses	7,359.41	79,217
Ancillary buildings and structures	5,151.61	55,452
Total:	33,656.96	362,284

Notes:

(1) Pursuant to the land use rights leasing agreement entered into the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) CSAHC has obtained the granted or authorized land use rights of 3 parcels of land with a total area of approximately 160,160.30 sq.m.

(ii) China Northern Airlines has obtained the Building Ownership Certificates for 16 buildings.

(iii) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(iv) CSAHC has agreed to bear all liabilities, losses and costs arising

from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(v) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(vi) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

PROPERTIES	DESCRIPTION AND TENURE	PARTICUL OF OCCUP
5. Various properties to be acquired by the Company from China Northern Airlines Company in Chaoyang	The property comprises 9 various operational and ancillary buildings and various structures completed in various stages between 1966 and 1992 with a total gross floor area of approximately 7,831.45 sq.m. (84,298 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Office: 4,046.99 / 43,562 Ancillary buildings and structures: 3,784.46 / 40,736 Total: 7,831.45 / 84,298	The properties are China Northern Airl for office and trai purposes.

The land upon which the properties currently erected comprises 1 parcel of land with a total area of 31,226.67 sq.m. (336,123.88 sq.ft.).	
The land use rights of the properties are held for a term of 49 years from 26 August, 2004 to 1 January, 2053.	

Notes:

(1) Pursuant to the land use rights leasing agreement entered into the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) CSAHC has obtained the authorized land use rights of 1 parcel of land with a total area of approximately 31,226.67 sq.m.

(ii) China Northern Airlines has obtained the Building Ownership Certificates for 9 buildings.

(iii) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(iv) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(v) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(vi) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land

Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANC
6. Various properties to be acquired by the Company from Xinjiang Civil Aviation Property Management Ltd in Urumqi	The property comprises 59 various operational and ancillary buildings and various structures completed in various stages between 1975 and 2004 with a total gross floor area of approximately 65,424.44 sq.m. (704,229 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA Office: 4,289.67 sq.m. / 46,174 sq.ft. Warehouses: 10,387.28 sq.m. / 111,809 sq.ft. Ancillary buildings and structures: 50,747.49 sq.m. / 546,246 sq.ft. Total: 65,424.44 sq.m. / 704,229 sq.ft. The land upon which the properties currently erected comprises 18 parcels of land with a total area of 310,059.85 sq.m. (3,337,484 sq.ft.). The land use rights of the properties are allocated to Xinjiang Civil Aviation Property Management Ltd.	The properties are occu Xinjiang Civil Aviation Management Ltd for offi carparks and warehouses

Notes:

(1) According to the information provided, the land portions of the properties are allocated which are non-transferable in the open market. We have thus attributed no commercial value to the properties due to its non-transferability in the open market. However, further to your specific term of instructions, we have calculated the depreciated replacement cost of the properties for indication purposes. The depreciated replacement costs of the buildings and structures with a total gross floor area of approximately 65,424.44 sq.m. is RMB150,960,000 as at the date of valuation.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The land use rights of the 18 parcels of land with a total area of 310,059.85 sq.m. is allocated to Xinjiang Civil Aviation Property Management Ltd; and

(ii) Xinjiang Civil Aviation Property Management Ltd obtained the ownership of the 59 buildings and structures of the properties.

(3) In the course of our valuation, we have assigned no commercial value to the properties due to its non-transferability in the market.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULA OF OCCUPA
7. Various properties to be acquired by the Company from Xinjiang Airlines Company in Urumqi	The property comprises 60 various operational and ancillary buildings and various structures completed in various stages between 1975 and 2004 with a total gross floor area of approximately 116,292.37 sq.m. (1,251,771 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Office: 100,167.71 / 1,078,205 Warehouses: 6,577.96 / 70,805 Ancillary buildings and structures: 9,546.70 / 102,761 Total: 116,292.37 / 1,251,771 The land upon which the properties	The properties are Xinjiang Airlines C offices, training c carparks and wareho purposes.

	currently erected comprises 13 parcels of land with a total area of 548,556.07 sq.m. (5,904,658 sq.ft.).
	The land use rights of the properties is held for a term of 49 years from 26 August, 2004 to 1 January, 2053.

Notes:

(1) Pursuant to the land use rights leasing agreement entered into the Company and CSAHC on 12 November, 2004 (the "Lease Agreement") CSAHC agreed to lease 22 parcels of land with a total area of approximately 633,740.93 sq.m. to the Company at an annual rental of RMB10,340,449 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(ii) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(iii) CSAHC and Xinjiang Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(iv) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(3) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any

legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

GROUP II - PROPERTIES UNDER CONSTRUCTION TO BE ACQUIRED BY THE COMPANY FROM CSAHC

PROPERTIES	DESCRIPTION AND TENURE	PARTICUL OF OCCUP
8. Various properties to be acquired by the Company from Xinjiang Civil Aviation Property Management Ltd in Urumqi	The property comprises 3 ancillary buildings and various structures scheduled to be completed in late 2004. Upon completion, the total gross floor area of the properties will be approximately 193,809.28 sq.m. (2,086,163 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Office: 7,652.90 / 82,375 Warehouses: 186,156.38 / 2,003,787 Total: 193,809.28 / 2,086,163 The land upon which the properties currently erected comprises 2 parcels of land with a total area of approximately 134,163.90 sq.m. (1,444,140 sq.ft.). The land use rights of the properties are allocated to Xinjiang Airlines Property.	The properties are construction.

Notes:

(1) According to the information provided, the land portions of the properties are allocated which are non-transferable in the open market. We have thus attributed no commercial value to the properties due to its non-transferability in the open market. However, further to your specific term of instructions, we have calculated the depreciated replacement cost of the properties for indication purposes. The depreciated replacement costs of the buildings and structures with a total gross floor area of approximately 65,424.44 sq.m. is RMB40,850,000 as at the date of

valuation.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The land use rights of the 2 parcels of land with a total area of 134,163.90 sq.m. is allocated to Xinjiang Civil Aviation Property Management Ltd; and

(ii) The buildings with a total gross floor area of 193,909.28 sq.m. is under construction. Application for Building Ownership Certificates is incapable to conduct at this moment.

(3) In the course of our valuation, we have assigned no commercial value to the properties due to its non-transferability in the market.

PROPERTIES	DESCRIPTION AND TENURE	PARTICUL OF OCCUP
9. Various properties to be acquired by the Company from Xinjiang Airlines Company in Urumqi	The property comprises an ancillary structure scheduled to be completed in late 2004 with a total gross floor area of approximately 780 sq.m. (8,396 sq.ft.). The land upon which the properties currently erected on comprises a parcel of land with a total area of 72,534.82 sq.m. (780,765 sq.ft.). The land use rights of the property is held for a term of 49 years from 26 August, 2004 to 1 January, 2053.	The property is und construction.

Notes:

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(ii) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands and to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(iii) CSAHC and Xinjiang Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(iv) The transfer of buildings and structures of the properties to the Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. While the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion the lands to granted lands but not to bear any procedural costs.

(2) We have assigned no commercial value to the land portions of the properties due to its non-transferability in the open market. According to the Group's PRC legal adviser opinion, the Company will obtain the ownership of the buildings and structures of the property without any legal obstacles. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process. We have, relied on the aforesaid, assigned open market values to the buildings and structures of the properties but excluding the land portion.

GROUP III - PROPERTY INTERESTS TO BE RENTED BY THE COMPANY FROM CSAHC

PROPERTIES	DESCRIPTION AND TENURE	PARTICUL OF OCCUP
10. Various properties to be rented by the Company from CSAHC	The properties comprise 35 parcels of land with a total area of approximately 1,182,297.00 sq.m. (12,726,245 sq.ft.), together with 186 various operational and ancillary buildings and various structures completed in various stages between 1964 and 2000 with a total gross floor area of approximately 220,152.51 sq.m. (2,369,722 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 103,850.04 / 1,117,842 Warehouses: 37,195.81 / 400,376 Ancillary buildings: 79,106.66 / 851,504 Total: 220,152.51 / 2,369,722	The properties are occupied by China N Airlines Company fo warehouse, carparks buildings and staff operating and ancil

	The buildings and structures will be leased by the Company from CSAHC, China Northern Airlines Company Limited and Xinjiang Airlines Company under 2 lease agreements for a term of 3 years at an aggregate annual rental of RMB47,791,227.05.
	The land use rights of the properties will be leased to the Company from CSAHC at an aggregate annual rental of approximately RMB1,850,000 (please see note (3) for details).

Notes:

(1) Pursuant to the premises leasing agreement entered into between CSAHC and China Northern Airlines Company and the Company on 12 November, 2004 ("Lease Agreement 1"), 156 buildings and various structures will be rented by Company for a term of 3 years commencing from the effective date of this agreement at an annual rental of RMB41,993,318.44.

(2) Pursuant to the premises leasing agreement entered into between CSAHC and Xinjiang Airlines Company and the Company on 12 November, 2004 ("Lease Agreement 2"), 30 buildings and various structures will be rented by Company for a term of 3 years commencing from the effective date of this agreement at an annual rental of RMB5,797,908.61.

(3) Pursuant to a land lease agreement entered into between CSAHC and the Company dated ("Lease Agreement 3"), 35 parcels of land with a total area of approximately 1,182,297.00 sq.m. will be rented to the Company at an aggregate annual rental of RMB1,850,000 for a term of three years with an option to renew for further terms (subsequent annual rents will remain unchanged) where the entire lease term is either not less than the term specified in the corresponding Building Ownership Certificates of the buildings erected on the lands or the corresponding residual useful life of buildings determined in valuations when the Company purchases the buildings, whichever is longer.

(4) We have been provided with a legal opinion on the legality of the lease agreements prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Lease Agreement is legally valid. During the lease term, the Company has the right to occupy and use the leased lands;

(ii) CSAHC has agreed to bear all liabilities, losses and costs arising from disputes on the land use rights of the leased lands to indemnify the Company in respect of losses to the buildings and structures erected on the leased lands;

(iii) CSAHC and China Northern Airlines Company have agreed to indemnify the Company in respect of disputes on the title and the incorrectness to the buildings and structures of the properties; and

(iv) The transfer of buildings and structures of the properties to the

Company has no legal impediment. After the acquisition, the Company will have the ownership to the buildings and structures of the properties and can use, mortgage, lease and sell the buildings and structures of the properties. However, if the Company sells the buildings and structures of the properties to third parties (other than CSAHC, its subholdings, subsidiaries and associates), the Company shall obtain an approval from relevant State-owned Land Resources Administration Bureaus and pay relevant land grant fees. With the sale, CSAHC has agreed to assist the Company in proceeding the relevant procedures for conversion of the lands to granted lands but not to bear any procedural costs.

GROUP IV - PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OCCUPANCY
11. Various properties held by China Southern Airlines Company Limited Guangzhou Headquarters	The properties comprise 50 various operational and ancillary buildings and various structures completed in various stages between 1957 and 2003 with a total gross floor area of approximately 158,202.26 sq.m. (1,702,889 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA Offices: 97,476.24 sq.m. / 1,049,234 sq.ft. Warehouses: 15,303.09 sq.m. / 164,722 sq.ft. Ancillary buildings: 45,422.93 sq.m. / 488,932 sq.ft. Total: 158,202.26 sq.m. / 1,702,889 sq.ft. The lands upon which the properties currently erected comprise 3 parcels of land with a total area of approximately 1,659,136.21 sq.m. (17,858,942 sq.ft.).	The property is occ Group as offices, w staff quarters for ancillary purposes.

Notes:

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) Pursuant to an approval for construction land, the land of approximately 676 sq.m. is vested in CSAHC. However, there is a

dispute on the land use right of the land so that the Group cannot obtain the relevant land use right certificate and transfer the land. Nevertheless, the Group can use the land in its existing state. In addition, the building with gross floor area of approximately 7,606 sq.m. erected on the aforesaid land also cannot be transferred due to the land dispute, but the Group can use the building;

(ii) In respect of a parcel of granted land of approximately 248,461.62 sq.m., the Group has signed the relevant land use right grant contract but has not yet fully paid the land grant fee and thus has not obtained the land use right certificate;

(iii) The Group has legal rights to the buildings of the properties and has no legal impediment in obtaining the relevant title documents. The Group has the ownership to the buildings and can use, mortgage, lease and sell the buildings. However, if the Group sells the buildings of the properties to third parties (other than CSAHC and its subsidiaries, associated companies and shareholding companies), the Group shall obtain an approval from relevant State-owned Land Administration Bureaus and pay relevant land grant fees.

(iv) The total land area of Bai Yun Airport is approximately 14,394,652.27 sq.m., which is an allocated land, and a portion which is occupied by the Group. When the Group transfers the portion of the land, the Group needs to obtain an approval from State-owned Land Administration Bureau and to pay a land grant fee.

(2) In the course of our valuation, we have assumed that the granted land can be transferable in the market. In respect of the land of approximately 676 sq.m. and the corresponding building erected thereon with gross floor area of approximately 7,606 sq.m. where there is land dispute, and a portion of the allocated land with site area of approximately 1,409,988.59 sq.m., as advised by the Group, we have assigned no commercial value to the lands and the building.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULAR OCCUPANC
12. Various properties held by China Southern Airlines Company Limited in Henan	The properties comprise 20 various operational and ancillary buildings and various structures completed in various stages between 1997 and 2002 with a total gross floor area of approximately 36,805 sq.m. (396,166 sq.ft.). Details of the gross floor areas of the properties are listed as follows:	The properties are the Group as office quarters for operat ancillary purposes.

USE	APPROXIMATE GROSS FLOOR AREA	
	sq.m.	sq.ft.
Offices	19,783.35	212,948
Ancillary buildings	17,021.35	183,218
Total:	36,804.70	396,166

The lands upon which the properties currently erected comprise 4 parcels of land with a total area of approximately 295,661.32 sq.m. (3,182,498 sq.ft.).

The land use rights of the properties have been granted for 50 years (except the allocated land).

Notes:

(1) According to 4 Land Use Rights Certificates and 20 Building Ownership Certificates, the land use rights of 4 parcels of land with a total area of approximately 295,661.32 sq.m. and the building ownership rights of 20 buildings with a total gross floor area of approximately 36,804.70 sq.m. are held by China Southern Airlines Company Limited Henan Branch, which is 100% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Group has obtained three Land Use Right Certificates for the three granted lands with a total area of approximately 289,909.65 sq.m. and the Group has owned the land use rights and has the rights to use, lease, mortgage and transfer the lands;

(ii) The Group has obtained a Land Use Right Certificate for the allocated land with an area of approximately 5,751.67 sq.m.. The Group has owned the land use rights and has the rights to use, mortgage and sell the land. While the land is transferred, the Group shall obtain an approval from the relevant State-owned Land Administration Bureaus and pay relevant land grant fees; and

(iii) The Group has obtained 16 Building Ownership Certificates for 16 buildings of the properties and has legally acquired 4 buildings of the properties where the Group needs to apply for change of ownership of the buildings. The Group has the ownership to all the buildings and can use, mortgage, lease and sell the buildings.

(3) In the course of our valuation, since the allocated land cannot be freely transferable in the market, we have assigned no commercial value to the land.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULAR OCCUPANC
13. Various properties held by China Southern Airlines Company Limited in Hubei	The properties comprise 6 various operational and ancillary buildings and various structures completed in various stages between 1994 and 1999 with a total gross floor area of approximately 55,065.33 sq.m. (592,723 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 44,178.39 / 475,536 Ancillary buildings: 10,886.94 / 117,187 Total: 55,065.33 / 592,723 The lands upon which the properties currently erected comprise 7 parcels of land with a total area of approximately 119,320.47 sq.m. (1,284,366 sq.ft.) (excluding the site with uncertain area). The land use rights of the properties have been granted for various terms ranging from 42 to 50 years.	The properties are the Group as office quarters for operat ancillary purposes.

Notes:

(1) According to 3 Land Use Rights Certificates and 3 Building Ownership Certificates, the land use rights of 3 parcels of land with a total area of approximately 14,884.97 sq.m. and the building ownership rights of 2 buildings with a total gross floor area of approximately 28,693.09 sq.m. are held by China Southern Airlines Company Limited Hubei Branch, which is 100% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Group has obtained three Land Use Right Certificates for the three granted lands with a total area of approximately 14,884.97 sq.m. and the Group has owned the land use rights and has the rights to use, lease, mortgage and transfer the lands;

(ii) The Group has obtained three Land Use Right Certificates for the three allocated lands with a total area of approximately 104,435.50 sq.m.. The Group has owned the land use rights and has the rights to use, mortgage and sell the lands. While the lands are transferred, the Group shall obtain an approval from the relevant State-owned Land Administration Bureaus and pay relevant land grant fees;

(iii) A parcel of land with undetermined site area has not been obtained the relevant Land Use Right Certificate;

(iv) The Group has obtained 3 title documents for 3 buildings of the properties with a total gross floor area of approximately 44,178.39 sq.m.. Since one of the buildings of approximately 15,485.30 sq.m. is erected on the allocated land, a land grant fee shall be paid while transfer. The remaining two buildings can be leased, mortgaged and transferred; and

(v) There are two buildings with a total gross floor area of approximately 5,486.94 sq.m. not yet obtained the relevant title documents.

(3) In the course of our valuation, since the allocated lands and the corresponding buildings erected thereon as well as the buildings and the parcel of land having no title documents cannot be freely transferable in the market, we have assigned no commercial value to them.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULAR OCCUPANCY
14. Various properties held by China Southern Airlines Company Limited Hunan Branch	The properties comprise 35 various operational and ancillary buildings and various structures completed in various stages between 1989 and 2002 with a total gross floor area of approximately 69,057.36 sq.m. (743,333 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA: sq.m. / sq.ft. Offices: 26,861.53 / 289,138 Warehouses: 9,444.89 / 101,665 Ancillary buildings: 32,750.94 / 352,531 Total: 69,057.36 / 743,333	The property is occ Group as office and for operating purpo

	The land upon which the properties currently erected comprise 8 parcels of land with a total area of approximately 174,138.34 sq.m. (1,874,425 sq.ft.) (excluding the site with uncertain area).
	The land use rights of the properties have been granted for various terms ranging from 38 to 61 years.

Notes:

(1) According to 7 Land Use Rights Certificates and 36 Building Ownership Certificates, the land use rights of 7 parcels of land with a total area of approximately 174,138.34 sq.m. and the building ownership rights of 35 buildings with a total gross floor area of approximately 51,391.62 sq.m. are held by China Southern Airlines Company Limited Hunan Branch, which is 100% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Group has obtained 7 Land Use Right Certificates for the 7 granted lands with a total area of approximately 174,138.34 sq.m. and the Group has owned the land use rights and has the rights to use, lease, mortgage and transfer the lands;

(ii) A parcel of land with undetermined site area has not been obtained the relevant Land Use Right Certificate for which the Group is applying;

(iii) The Group has possessed proper title to the buildings of the properties with a total gross floor area of approximately 51,391.62 sq.m., which can be used, leased, mortgaged and transferred by the Group.

(3) In the course of our valuation, since the parcel of land with undetermined site area and the buildings with total gross floor area of approximately 18,116.48 sq.m. have no proper title, we have assigned no commercial value to them.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OCCUPANCY

15. Various properties held by China Southern Airlines Company Limited in Shenzhen	The properties comprise 269 various operational and ancillary buildings and commodity properties completed in various stages between 1991 and 1994 with a total gross floor area of approximately 31,937.22 sq.m. (343,772 sq.ft.). Details of gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 7,931.92 / 85,379 Warehouses: 1,665.60 / 17,929 Ancillary buildings: 22,339.70 / 240,465 Total: 31,937.22 / 343,772 The lands upon which the properties (excluding stratified properties) currently erected comprise 3 parcels of land with a total area of approximately 205,045.40 sq.m. (2,207,109 sq.ft.). The land use rights of portions of the properties have been granted for various terms ranging from 30 years to 70 years, and the remaining lands are allocated lands.	The properties are occupied by the Gro office, warehouse a quarters for operat ancillary purposes.

Notes:

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Company has the land use right of the site with an area of approximately 199,285.60 sq.m. and is entitled to occupy, use and dispose the land within the land use right term. There is no legal impediment for the Company to obtain Real Estate Title Certificate and settlement of land premium is not necessary.

(ii) The Company is entitled to use, rent, mortgage and transfer the land use right of the land which 248 buildings with a gross floor area of approximately 20,852.01 sq.m. erecting upon.

(iii) According to 253 Real Estate Title Certificates registered under the name of China Southern Airlines Company Limited in Shenzhen, 248 buildings and commodity properties with a total gross floor area of approximately 20,852.01 sq.m. are held by China Southern Airlines Company Limited in Shenzhen, which is 100% owned by the Group.

(iv) According to 5 Real Estate Title Certificates registered under the name of Shenzhen City Southern Aviation Instrument Company Limited, 5 commodity properties with a total gross floor area of approximately 465.50 sq.m. are not owned by the Group.

(v) Since 14 buildings with total gross floor area of 10,623.69 sq.m. and 2 buildings with undetermined floor area do not have any land use right title certificate, the Group cannot obtain the real estate with certificates.

(2) In the course of our valuation, we have assigned no commercial value to the 21 properties to which the Group has no title. However, for indication purpose, the total value of the 21 properties is RMB99,120,000 as at the date of valuation.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OCCUPANCY
16. Various properties held by China Southern Airlines Company Limited in Hainan	The properties comprise 29 various operational and ancillary buildings and various structures completed in various stages between 1997 and 2002 with a total gross floor area of approximately 54,567.19 sq.m. (587,361 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices 23,310.75 250,917 Warehouses 2,051 22,077 Ancillary buildings 29,205.44 314,367 Total: 54,567.19 587,361 The lands upon which the properties currently erected comprise 5 parcels of land with a total area of approximately 330,532.71 sq.m. (3,557,854 sq.ft.). The land use rights of the properties with an area of 4,739.21 sq.m. and 19,329.9 sq.m. have been granted for terms expiring on 17 February, 2070 and July 2063 respectively. The remaining lands are allocated lands.	The properties are occupied by the Gro office, warehouse a quarters for operat ancillary purposes.

Notes:

(1) Since the land of 23 buildings is allocated land and/or the buildings have not obtained the Real Estate Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 23 buildings with a total gross floor areas of approximately 41,515.30 sq.m. is RMB107,209,307 as at the date of valuation.

(2) According to 2 Land Use Rights Certificates and 6 Building Ownership Certificates given to us, the land use rights of 2 parcels of land with a total area of approximately 24,069.11 sq.m. and the building ownership rights of 6 buildings with a total gross floor area of approximately 13,051.89 sq.m. are held by China Southern Airlines Company Limited Hainan Branch, which is 100% owned by the Group.

(3) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(1) The Company has the land use right of the lands with an area of approximately 4,739.21 sq.m. and 19,329.9 sq.m. and is entitled to occupy, use and dispose the land within their respective land use right term.

(ii) The Company has legally obtained the Building Ownership Certificates with an area of approximately 269.45 sq.m. and the land of Room 1308, Block E of World Trade Building and Room 1005 of Jiang Nan Hua Yuan (Unit Yi) and there is no legal impediment in applying for relevant title certificate. However, as the policy of the different government departments varies, the time for successful application cannot be confirmed.

(iii) The Real Estate Title Certificate of 6 buildings has been obtained and the titles to the properties are legally vested in the Company. The Company is entitled to use, rent, mortgage and transfer the properties.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OCCUPANC
17. Various properties held by China Southern Airlines (Group) Zhuhai Helicopter Company Limited	The properties comprise 46 various operational and ancillary buildings and various structures completed in various stages between 1989 and 2004 with a total gross floor area of approximately	The properties are occupied by the Gro office and staff qu operating and ancil purposes.

16,350.29 sq.m. (175,995 sq.ft.).

Details of the gross floor areas of the properties are listed as follows:

USE	APPROXIMATE GROSS FLOOR AREA	
	sq.m.	sq.ft.
Offices	2,977.56	32,050.46
Ancillary buildings	13,372.73	143,944.07
Total:	16,350.29	175,994.52

The lands upon which the properties currently erected comprise 6 parcels of land with a total area of approximately 150,524.18 sq.m. (1,620,242.27 sq.ft.).

The land use rights of the properties have been granted for various terms ranging from 50 to 50 years.

Notes:

(1) Since the land of 28 buildings is allocated land and/or the buildings have not obtained the Real Estate Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 28 buildings with a total gross floor areas of approximately 16,350.29 sq.m. is RMB25,610,000 as at the date of valuation.

(2) According to a Land Use Rights Certificate and 14 Real Estate Title Certificates given to us, the land use rights of 1 parcel of granted land with a total area of approximately 10,046.60 sq.m. and the building ownership rights of 14 buildings with a total gross floor area of approximately 8,249.90 sq.m. are held by China Southern Airlines (Group) Zhuhai Helicopter Company Limited, which is 100% owned by the Group.

(3) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Company has legally obtained the land use right of the land with an area of approximately 140,120.3 sq.m.. There is no legal impediment for change of "land origin" registration and settlement of land premium for the registration is not necessary. However, as the policy of the different government departments varies, the time for successful change of registration cannot be confirmed.

(ii) The land with an area of approximately 257.28 sq.m. is allocated land. The Company held the land use right and is entitled to occupy, use and dispose the land. Since the land is allocated, the Company

has to settle the land premium and get prior approval from relevant government authorities when disposing the land.

(iii) The Company has the land use right of the land with an area of approximately 10,046.6 sq.m. and is entitled to use, rent, mortgage and transfer the land use right.

(iv) The Real Estate Certificate of 14 buildings with a total gross floor area of approximately 8,249.9 sq.m. has been obtained. However, the property rights owner of the aforesaid certificate is in the old name of China Southern Airlines Company Limited Zhuhai Branch. There is no legal impediment in applying for change of name.

(v) The 5 buildings with a total gross floor area of approximately 2,521.44 sq.m. is erected upon allocated land. The Company has to settle the land premium whenever it transfers the property right.

(vi) The Company can use the 5 buildings with a total gross floor area of approximately 4,460 sq.m. but it has to settle the land premium whenever it transfers the property right.

(vii) The Company has the right to use, rent, mortgage and transfer the building with a gross floor area of approximately 165.27 sq.m.. Since the building is erected upon allocated land, the Company has to settle the land premium whenever it transfers the property right.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OCCUPANCY
18. Various properties held by Xiamen Airlines Company Limited (Xiamen Airlines)	The properties comprise 114 various operational and ancillary buildings and various structures completed in various stages between 1979 and 2003 with a total gross floor area of approximately 267,287.34 sq.m. (2,877,081 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 217,198.34 / 2,337,923 Warehouses: 8,554 / 92,075 Ancillary buildings: 41,535.02 / 447,083 Total: 267,287.36 / 2,877,081 The lands upon which the properties	The property is occ Group as office and for operating purpo

(excluding stratified properties) currently erected comprise 22 parcels of land with a total area of approximately 400,753.28 sq.m. (4,313,708 sq.ft.).

The land use rights of the properties have been granted for various terms ranging from 40 to 70 years.

Notes:

(1) According to 52 Land Use Rights Certificates and 83 Building Ownership Certificates, the land use rights of land with a total area of approximately 400,925.83 sq.m. and the building ownership rights of buildings with a total gross floor area of approximately 183,966.37 sq.m. are held by Xiamen Airlines Company Limited, which is 60% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Group has obtained 16 Land Use Right Certificates for a granted land with total area of approximately 31,298.42 sq.m. and 34 allocated lands with a total area of approximately 369,627.41 sq.m., respectively. The Group owned the land use rights of the two lands and has the rights to use, lease, mortgage and transfer the lands where the allocated land is subject to obtaining an approval from the relevant State-owned Land Administration Bureaus and pay relevant land grant fees;

(ii) The Group has the land use rights of 39 buildings, which have not yet obtained the relevant Land Use Right Certificates. The lands cannot be transferred separately but shall be transferred with the buildings erected on. In addition, the use of a land for "Zhai Ji Di" with an area of approximately 152.90 sq.m. which the Group has the land use right is inconsistent with the laws;

(iii) The Group has obtained Building Ownership Certificates for 83 buildings of which approximately 25,359.02 sq.m. of buildings the Group has the right to use, lease, mortgage and transfer, approximately 144,892.04 sq.m. of buildings the Group has the building ownership but land grant fee shall be payable upon transfer, approximately 13,715.31 sq.m. of buildings the Group has the right to use, lease, mortgage and transfer but the corresponding land use right certificates have not yet obtained where while the buildings are transferred, the corresponding land use right shall be transferred altogether;

(3) In the course of our valuation, we have assigned no commercial value to the allocated land, the lands without Land Use Right Certificates and the "Zhai Ji Di" with a total land area of approximately 229,863.85 sq.m. and the buildings with a total gross floor area of approximately 241,928.32 sq.m. because they cannot be freely transferred in the market.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	O IN E
19.	Various properties held by Southern Airlines (Group) Shantou Airlines Company Limited	The properties comprise 88 various operational and ancillary buildings and various structures completed in various stages between 1993 and 2002 with a total gross floor area of approximately 40,624.35 sq.m. (437,281 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 31,333.59 / 337,275 Ancillary buildings: 9,290.76 / 100,006 Total: 40,624.35 / 437,281 The lands upon which the properties currently erected comprise 5 parcels of land with a total area of approximately 32,094.13 sq.m. (345,461 sq.ft.). The land use rights of the properties have been granted for various terms ranging from 50 to 70 years.	The properties are currently occupied by the Group for office, operating and ancillary purposes.	

Notes:

(1) Since the land of 11 buildings is allocated land and/or the buildings have not obtained the Building Ownership Certificates/Reality Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 11 buildings with a total gross floor areas of approximately 9,185.85 sq.m. is RMB29,540,000 as at the date of valuation.

(2) According to 4 Land Use Rights Certificates and 77 Reality Title Certificates given to us, the land use rights of 4 parcels of land with a total area of approximately 32,094.13 sq.m. and the building ownership rights of 77 buildings with a total gross floor area of approximately 31,438.50 sq.m. are held by Southern Airlines (Group) Shantou Airlines Company Limited, which is 60% owned by the Group.

(3) We have been provided with a copy of the legal opinion on the title to the

properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) Southern Airlines (Group) Shantou Airlines Company Limited has obtained the granted land use rights of the 4 parcels of land with a total area of approximately 32,094.00 sq.m. and can use, lease, mortgage and transfer the land.

(ii) Southern Airlines (Group) Shantou Airlines Company Limited has obtained the reality title certificates for 77 buildings and can use, mortgage, lease and sell the buildings. However, as 20 of the buildings has been mortgaged, consent has been obtained for the transfer of the aforesaid 20 buildings according to the law in the PRC.

(iii) For the 11 buildings which have not obtained the reality title certificates, 9 buildings with a total floor area of approximately 7,830.85 sq.m. are erected on leased land and the ownership will be given to the lessor of the land. Southern Airlines (Group) Shantou Airlines Company Limited has the right to use the 9 buildings during the lease period. The remaining 2 buildings with a total gross floor area of approximately 1,355 sq.m. are erected on granted land and there is no impediment for obtaining the reality title certificate.

(4) We have assigned no commercial value to the land in which the reality title certificate has not been obtained.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
20.	Various properties held by Guangxi Airlines Company Limited	The properties comprise 29 various operational and ancillary buildings and various structures completed in various stages between 1996 and 2002 with a total gross floor area of approximately 55,765.21 sq.m. (600,257 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 38,615.41 / 415,656 Warehouses: 2,256 / 24,284	The property is occupied by the Group as office, warehouse and staff quarters for operating and ancillary purposes.

Ancillary buildings	14,893.81	160,317
Total:	55,765.22	600,257

The lands upon which the properties currently erected comprise 5 parcels of land with a total area of approximately 54,837.55 sq.m. (590,271 sq.ft.).

The land use rights of the properties have been granted for various terms of 70 years.

Notes:

(1) Since 25 buildings are erected on allocated land and/or have not obtained the Building Ownership Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 25 buildings with a total gross floor areas of approximately 50,097.28 sq.m. is RMB101,450,000 as at the date of valuation.

(2) According to 2 Land Use Rights Certificates and 12 Building Ownership Certificates given to us, the land use rights of 1 parcel of granted land with an area of approximately 8,490.85 sq.m. and 1 parcel of allocated land with an area of approximately 46,346.7 sq.m. and the building ownership rights of 4 buildings erected on granted land with a total gross floor area of approximately 5,667.93 sq.m. and 8 buildings erected on allocated land with total gross floor area of approximately 27,481.53 sq.m. are held by Guangxi Airlines Company Limited, which is 60% owned by the Group.

(3) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) Guangxi Airlines Company Limited has obtained the granted land use right of a parcel of land with an area of approximately 8,590.85 sq.m. and can use, lease, mortgage and transfer the land and has obtained the allocated land use right of a parcel of land with an area approximately 46,346.70 sq.m. and can use, lease, mortgage and transfer the land with approval of the State Land Bureau and payment of the land premium.

(ii) Guangxi Airlines Company Limited has obtained the building ownership certificates for 10 buildings. 4 buildings with a total area of approximately 5,576.93 sq.m., which are erected on granted land, are legally owned and can be used; leased, mortgaged and transferred by Guangxi Airlines Company Limited. As the other 6 buildings with a total area of approximately 27,481.53 sq.m. are erected on allocated land or land with unclear title, there is legal impediment for the transfer of the buildings and or land premium has to be paid.

(iii) Guangxi Airlines Company Limited has the land use right for the remaining 19 buildings with a total gross floor area of approximately 22,615.75 sq.m. Since they are erected on granted land, there is no legal impediment for Guangxi Airlines Company Limited to obtain the building ownership certificates.

(4) For the remaining 3 parcels of land in which the reality title certificates have not been obtained, the areas of the land cannot be determined.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
21.	Various properties held by Zhuhai Airlines Company Limited	The properties comprise 52 various operational and ancillary buildings and various structures completed in various stages between 1993 and 2002 with a total gross floor area of approximately 54,471.53 sq.m. (586,331 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 8,735.22 / 94,026 Ancillary buildings: 45,736.31 / 492,306 Total: 54,471.53 / 586,332 The lands upon which the properties (excluding stratified properties) currently erected comprise 5 parcels of land with a total area of approximately 65,255.50 sq.m. (702,410 sq.ft.) (See Notes (2)(ii)). The land use rights of the properties have been granted for various terms ranging from 48 to 65 years.	The property is occupied by the Group as office, warehouse and staff quarters for operating and ancillary purposes.

Notes:

(1) According to 48 Land Use Rights Certificates and 46 Building Ownership Certificates, the land use rights and the building ownership rights of 46 buildings with a total gross floor area of approximately 44,432.19 sq.m.

are held by Zhuhai Airlines Company Limited, which is 60% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Group has obtained two Land Use Right Certificates for a granted land with area of approximately 59,999.90 sq.m. and an allocated land with area of approximately 5,255.60 sq.m., respectively. The Group has owned the land use rights of the two lands and has the rights to use, lease, mortgage and transfer the lands where the allocated land is subject to obtaining an approval from the relevant State-owned Land Administration Bureaus and pay relevant land grant fees;

(ii) The Group has three lands together with buildings (6,706 sq.m.) without having any title documents where the land areas cannot be determined. Thus, the ownership of the Group in the three lands and buildings cannot be confirmed;

(iii) The Group has obtained 46 Building Ownership Certificates for 46 buildings with total gross floor area of approximately 44,432.19 sq.m. of which 43 buildings with total gross floor area of approximately 43,922.79 sq.m. can be used, leased, mortgaged and transferred by the Group whilst 3 buildings with total gross floor area of approximately 509.40 sq.m. are erected on allocated lands that need to pay land grant fee before a transfer; and

(iv) The Group has the right to use two buildings with total gross floor area of approximately 3,033.34 sq.m. There is no legal impediment in applying for relevant Building Ownership Certificates.

(3) In the course of our valuation, we have assigned no commercial value to the allocated land (5,255.60 sq.m.) and the three lands together with buildings (6,706 sq.m.) because they cannot be freely transferred in the market.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
22.	Various properties held by Guizhou Airlines Company Limited	The properties comprise 11 various operational and ancillary buildings and various structures completed in various stages between 1991 and 2000 with a total gross floor area of approximately 4,087.81 sq.m.	The properties are currently occupied by the Group for office and staff quarters for operating and ancillary purposes.

(44,001 sq.ft.).

Details of the gross floor areas of the properties are listed as follows:

USE	APPROXIMATE GROSS FLOOR AREA	
	sq.m.	sq.ft.
Offices	1,667	17,944
Ancillary buildings	2,420.81	26,058
Total:	4,087.81	44,001

The lands upon which the properties currently erected comprise 2 parcels of land with area unknown.

The lands are allocated lands.

Notes:

(1) Since the land is allocated land and/or the buildings have not obtained the Real Estate Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 11 buildings with a total gross floor areas of approximately 4,087.81 sq.m. is RMB30,000,000 as at the date of valuation.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Company can legally use the land in Guiyang Leizhuang Airport for aviation transport purpose but it has to get approval from relevant government authorities and settle land premium prior to transfer of land use right.

(ii) There is no legal impediment in obtaining relevant title certificate for the land in Changli Commercial/Residential Building since it is commodity housing.

(iii) The Company has the right to use the property in Changli Commercial/Residential Building and there is no legal impediment in obtaining relevant title certificate for the land since it is commodity housing.

(iv) The Company has the right to use the property in Guiyang Leizhuang Airport and there is no legal impediment in obtaining relevant title certificate.

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	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
23.	Various properties held by Guangzhou Nanland Air Catering Company Limited	The properties comprise 3 various operational and ancillary buildings and various structures completed in various stages between 1985 and 1991 with a total gross floor area of approximately 12,464 sq.m. (134,163 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Food processing building: 11,300 / 121,633 Warehouses: 664 / 7,147 Ancillary buildings: 500 / 5,382 Total: 12,464 / 134,162 The land upon which the properties currently erected comprises a parcel of land with an area of approximately 15,333.41 sq.m. (165,049 sq.ft.). The land use rights of the properties have been authorized for operation to CSAHC.	The property is occupied by the Group as office, warehouse and staff quarters for operating and ancillary purposes.

Notes:

(1) Since the land is authorized for operation to CSAHC and the buildings have not obtained Reality Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 3 buildings with a total gross floor areas of approximately 12,464.00 sq.m. is RMB24,850,000 as at the date of valuation.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The land use rights of the property is authorized to CSAHC which is currently used by Nanland Air Catering Company Limited.

(ii) The buildings erected on the land are owned by Guangzhou Nanland Air Catering Company Limited, however, as the State-owned land use right certificate and building ownership certificate are combined as the reality title certificate in Guangzhou, it is impossible for Nanland Air Catering Company Limited to obtain the reality title certificate for the buildings.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	O IN E
24.	A property held by Guangzhou Aviation Hotel	The property comprises a hotel building completed in 1998 with a total gross floor area of approximately 11,485.40 sq.m. (123,629 sq.ft.). The land upon which the property currently erected comprises 1 parcel of land with a total area of approximately 1,250.46 sq.m. (13,460 sq.ft.).	The property is currently occupied by the Group as an operating hotel.	

Notes :

(1) According to 1 Land Use Rights Certificate and 1 Building Ownership Certificate given to us, the land use rights of 1 parcel of land with a total area of approximately 1,250.46 sq.m. and the building ownership rights of 1 building with a total gross floor area of approximately 11,485.40 sq.m. are held by Guangzhou Aviation Hotel, which is 90% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) Pursuant to the Real Estate Title Certificate Hui Fang Di Zheng Zi No. 0423921, the land portion of the property of granted land nature with an area of approximately 1,250.46 sq.m. is held by CSAHC.

(ii) The Guangzhou Aviation Hotel has obtained the land use rights of the property and can occupy, use, handle the land use rights within the land use right terms. The Group should change the land use rights of the property under its name and there is no legal obstacle to process such changes of ownership.

(iii) Pursuant to the Real Estate Title Certificate Hui Fang Di Zheng Zi No. 0423921, the building portion of the property with a gross floor area of approximately 11,485.40 sq.m. is held by CSAHC.

(iv) Guangzhou Aviation Hotel has obtained the building ownership of the property and can use, let, mortgage and transfer the property. The Group should change the land use rights of the property under its name and there is no legal obstacle to process such changes of ownership.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
25.	Various properties held by China Southern Airlines Company Limited Operation Department	The properties comprise 14 various operational and ancillary buildings and various structures completed in various stages between 1985 and 2002 with a total gross floor area of approximately 19,375.49 sq.m. (280,558 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 16,901.44 / 181,927 Ancillary buildings: 2,474.05 / 26,631 Total: 19,375.49 / 280,558 The lands upon which the properties currently erected comprise 13 parcels of land with a total area of approximately 31,505.99 sq.m. (339,130 sq.ft.). The land use rights of the properties have been granted for various terms ranging from 40 to 70 years.	The properties are currently occupied by the Group for office and staff quarters for operating and ancillary purposes.

Notes:

(1) Since the 5 buildings with a total gross floor area of approximately 1,881.99 sq.m. are erected on allocated land and/or the buildings have not obtained the Real Estate Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 5 buildings with a total gross floor areas of 1,881.99 sq.m. is RMB158,880,000 as at the date of valuation.

(2) According to 7 Land Use Rights Certificates and 10 Real Estate Title Certificates given to us, the land use rights of 6 parcels of land with a total area of approximately 5,834.66 sq.m. and the building ownership rights of 6 buildings with a total gross floor area of approximately 2,518.44 sq.m. are held by China Southern Airlines Company Limited Operation Department, which is 100% owned by the Group.

(3) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The land used by the operation departments in Beijing, Shanghai, Kunming, Chengdu (Friendship Building), Jinan and Xian cannot obtain relevant land use right certificate as the application for construction inspection by developer has not been carried out.

(ii) The Land Use Right Certificate of the land used by the operation departments in Chengdu (Ao Shen Hua Yuan), Xiamen and Nanjing has been obtained and the Company has the land use right of the land. Whenever the Company transfers the land use right, it has to transfer together with the buildings erected upon.

(iii) The Beijing Nan Hang Hotel and property used by Shanghai operation department has no real estate certificate and the Company has the right to use it.

(iv) The Real Estate Title Certificates of the buildings used by the operation departments of Kunming and Chengdu (Ao Shen Hua Yuan) has been obtained and the Company can use, rent, mortgage and transfer the property right.

(v) The Company has the right to use the buildings of the operation departments of Jinan and Chengdu (Friendship Building) and there is no legal impediment for the Company to obtain Real Estate Title Certificates upon settlement of the property price.

(vi) The Company has the right to use, rent, mortgage and transfer the property right of the National Development Bank Building and property used by Xiamen operation department.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
26.	Various properties held by China Southern Airlines Company Limited Zhuhai Flight Simulator Training Centre	The properties comprise 4 various operational and ancillary buildings completed in various stages between 1992 and 2001 with a total gross floor area of approximately 38,720.00 sq.m. (416,782 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA	The properties are currently occupied by the Group for and Zhuhai Xiang Yi Aviation Technology Company Limited for office, training centre, student quarters and canteen purposes.

	sq.m.	sq.ft.
Offices	21,095.00	227,066
Ancillary buildings	17,625.00	189,716
Total:	38,720.00	416,782

The lands upon which the properties currently erected comprise 2 parcels of land with a total area of approximately 29,941.60 sq.m. (322,291.38 sq.ft.).

The land use rights of the properties have been granted for 50 years commencing from 7 February, 1991 and 1 August, 1994 respectively.

Notes:

(1) According to 2 Land Use Rights Certificates given to us, the land use rights of 2 parcels of land with a total area of approximately 29,416.60 sq.m. are held by China Southern Airlines Company Limited Zhuhai Flight Simulator Training Centre, which is 100% owned by the Group.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The Company is entitled to use, rent, mortgage and transfer the land use right with an area of approximately 16,954 sq.m. There is no legal impediment for change of "land origin" registration and settlement of land premium for the registration is not necessary.

(ii) The Land Use Right Certificate of the land use right with an area of approximately 12,987.6 sq.m. has been obtained. The Company is entitled to use, rent, mortgage and transfer the land use right for a term of 50 years commencing from August 1994 and expiring on August 2004. However, the land use rights owner of the aforesaid certificate is in the old name of Zhuhai Flight Simulator Training Centre. There is no legal impediment in applying for change of name.

(iii) The Company held the ownership rights of the 4 buildings with a total gross floor area of approximately 38,720 sq.m. and there is no legal impediment for the Company to obtain relevant title certificates.

GROUP V - PROPERTIES HELD BY THE GROUP IN WESTERN AUSTRALIA

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY

27.	Various properties held by China Southern West Australian Flying College Pty Ltd. in Australia	The properties comprise 38 various operational and ancillary buildings and various structures completed in various stages between 1960 and 2000 with a total gross floor area of approximately 11,580 sq.m. (124,647 sq.ft.). Details of the gross floor areas of the properties held under freehold land are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. 13 Residences: 2,250 / 23,940 5 Transportables: 300 / 3,229 Dining/Ancillary: 250 / 2,691 Operations: 390 / 4,197 Briefing: 390 / 4,197 Tower/Facilities: 150 / 1,614 Hangar Workshop: 1,000 / 10,764 Residences: 1,040 / 11,194 Other: 150 / 1,614 Total: 5,920 / 63,723 Details of the gross flow areas of the properties held under leasehold land are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Hangar/Workshop: 1,485 / 15,984 Ground School: 377 / 4,058 Ancillary Storage: 98 / 1,054 Engine Workshop: 700 / 7,534 Dormitory Accom.: 3,000 / 32,393 Total: 5,660 / 60,924 The lands upon which the properties currently erected comprise 31 parcels of freehold lands with a total area of approximately 1,121,639 sq.m. (12,073,322 sq.ft.) and 3 parcels of leasehold lands with a total area of approximately 16,122sq.m. (173,537sq.ft.).	The properties are currently occupied by the Group for staff, student accommodation, administration and flying school purposes.

Note :

(1) The registered owner of the property is China Southern West Australian Flying College Pty Ltd..

The lands of the property with an area of approximately 16,122 sq.m. are leasehold lands, and we thus have attributed no commercial value to those leasehold lands and the buildings erecting thereon. However, for indication purposes, the depreciated replacement costs of the buildings with a total gross floor area of approximately 5,660 sq.m. is RMB19,773,000 as at the date of valuation.

GROUP VI - PROPERTIES HELD BY THE GROUP IN THE NETHERLANDS

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
28.	Five residential units held by the Company in Amstelveen Noord-Holland The Netherlands	The property comprises five residential units completed in various stages between late 1980s and mid 1990s with a total gross floor area of approximately 432.00 sq.m. (4,650 sq.ft.).	The property is currently occupied by the Group for staff quarters purposes.

Note:

The registered owner of the property is China Southern Airlines Company Limited.

GROUP VII - PROPERTIES HELD UNDER CONSTRUCTION BY THE GROUP IN THE PRC

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
29.	Various properties held under construction by China Southern Airlines Company Limited Guangzhou Headquarters	The properties under development are planned to comprise 16 buildings and 3 structures. Upon completion, the proposed development will have a total gross floor area of approximately 346,235.89 sq.m. (3,726,883 sq.ft.). The lands upon which the properties	The properties are currently under construction.

currently erected comprise a parcel of land with a total area of approximately 80,909 sq.m. (870,904 sq.ft.).

Notes :

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The application for properties under construction has been legally obtained and the properties under construction are vested in the Group. After the constructions have been completed and have obtained the completion certificates, the Group may apply for the relevant title documents;

(ii) The properties under construction are erected on a leased with a site area of 80,909 sq.m. land where the Group has the right to use but cannot sub-lease the land.

(2) We have assigned no commercial value to the land portions of the properties due to its non-transferability and non-subletting nature in the open market. According to the Group's PRC legal adviser opinion, the Company could apply the ownership of the buildings and structures of the property upon completion. Also, CSAHC has agreed to assist the Company to transfer the properties and process the land grant process whenever the Company dispose of the properties. We have, relied on the aforesaid, assigned open market values to the un-completed buildings and structures of the properties but excluding the land portion.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
30.	Various properties held under construction by Xiamen Airlines	The properties under development are planned to comprise 4 buildings and structures. Upon completion, the proposed development will have a total gross floor area of approximately 2,122 sq.m. (22,841 sq.ft.). The lands upon which the properties currently erected comprise 2 parcels of land with a total area of approximately 151,347.20 sq.m. (1,629,101 sq.ft.).	The properties are currently under construction.

Notes :

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

4 buildings are held under construction by Xiamen Airlines. One of the buildings is an aircraft repairing warehouse with a gross floor area of approximately 2,122 sq.m. For the remaining 3 buildings, there is no information regarding their gross floor area.

(2) Since no land use rights certificates have been obtained for the 2 subject lands of the property and the buildings of the property which are under construction have not obtained any construction approval documents from relevant governmental departments, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 4 buildings with a total gross floor areas of approximately 2,122 sq.m. is RMB1,250,000 as at the date of valuation.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
31.	A property held under construction by Southern Airlines (Group) Shantou Airlines Company Limited	The property under development is planned to comprise a warehouse. Upon completion, the proposed development will have a total gross floor area of approximately 2,058.00 sq.m. (22,152 sq.ft.). The land upon which the property currently erected comprises 1 parcel of land with an area of approximately 3,563.50 sq.m. (38,357.51 sq.ft.). The land use right of the property has been granted for a term of 50 years commencing from 25 May, 1994.	The property is currently under construction.

Note:

We have been provided with a copy of the legal opinion on the title to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

Southern Airlines (Group) Shantou Airlines Company Limited has obtained the granted land use rights of a parcel of land with an area of approximately 3,563.50 sq.m. and can use, lease, mortgage and transfer the land.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
32.	A parcel of land held under construction by Zhuhai Airlines Company Limited	The property comprise 1 parcel of land with an area of approximately 60,006.35 sq.m. (645,908.35 sq.ft.). The land use right of the property has been granted for a term of 50 years.	The property is currently under construction.

Note :

We have been provided with a copy of the legal opinion on the title to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

The Company has obtained the Land Use Right Certificate and it has the right to occupy, use and dispose of the land use right within the land use term.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
33.	Various properties held under construction by Guizhou Airlines Company Limited	The properties under development are planned to comprise 20 buildings and structures. Upon completion, the proposed development will have a total gross floor area of approximately 26,434.82 sq.m. (284,544 sq.ft.). The lands upon which the properties currently erected comprise 2 parcels of land with a total area of approximately 259,878.60 sq.m. (2,797,333.25 sq.ft.). The lands are allocated lands.	The properties are currently under construction.

Notes :

(1) Since the land of 20 buildings is allocated land and/or the buildings have not obtained the Real Estate Title Certificates, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 20 buildings with a total gross floor areas of approximately 26,434.82 sq.m. is RMB22,600,000 as at the date of valuation.

(2) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) The 2 parcels of lands with a total area of 259,878.6 sq.m. are allocated lands and the land use right certificates have been obtained.

(ii) The properties with a gross floor area of approximately 26,434.82 sq.m. have legally obtained the approval of construction and no third parties is involved in the dispute of the title. The Group will have the ownership right of the properties and there is no legal impediment in obtaining real estate title certificates after the construction has obtained a completion certificate.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
34.	Various properties held under construction by Guangzhou Baiyun International Logistic Company Ltd.	The properties under development are planned to comprise 10 buildings and structures. Upon completion, the proposed development will have a total gross floor area of approximately 123,928 sq.m. (1,333,961 sq.ft.). The land upon which the properties currently erected comprises 1 parcel of land with an area of approximately 653,333.3 sq.m. (7,032,480 sq.ft.).	The properties are currently under construction.

Notes:

(1) We have been provided with a copy of the legal opinion on the title to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) Ten buildings under construction with a total gross floor area of approximately 123,928 sq.m. have obtained approvals of construction and there is no third parties dispute on the

title. The Group may apply for Building Ownership Certificates after the construction has obtained a completion certificate.

(ii) The Group has possessed a parcel of land with an area of approximately 653,333 sq.m., which has no Land Use Right Certificate.

(2) Since the land has no title document, we have attributed no commercial value to the properties. However, for indication purposes, the depreciated replacement costs of the 10 buildings with a total gross floor area of approximately 123,928 sq.m. is RMB213,617,983 as at the date of valuation.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
35.	Various properties rented by China Southern Airlines Company Limited Guangzhou Headquarters	The properties comprise 12 various operational and ancillary buildings and various structures completed in various stages between 1986 and 1996 with a total gross floor area of approximately 93,854.35 sq.m. (1,010,248 sq.ft.) and a parcel of land with an area of approximately 80,909 sq.m. (870,904 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 33,827.88 / 364,123 Warehouses: 41,405 / 445,683 Ancillary buildings: 18,621.47 / 200,442 Total: 93,854.35 / 1,010,248 7 buildings of the property are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2002 at a total annual rental of RMB15,997,315.56. The remaining 5 buildings and the parcel of land together with other structures having an aggregate gross	The property is occupied by the Group as office, warehouse and staff quarters for operating and ancillary purposes.

floor area of 52,449.62 sq.m. and site area of approximately 80,909 sq.m. are rented from 1995 at an aggregate annual rental of RMB20,027,523.83.

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) CSAHC has obtained the rights to use the above-mentioned parcel of land with an area of approximately 80,909 sq.m. and under the condition of not changing the use of the land, CSAHC can continue to use the land. According to the Permit No. 460 dated 17 November, 2003, CSAHC has obtained the authorization to conduct its trade of business upon the said land and is being entitled to lease the land to its subsidiaries. The Group has obtained the rights to use the land according to the lease agreement and has not acquired the right of handling the property. The property cannot be sub-let, mortgaged or transferred by the Group.

(ii) For the remaining portion of property, according to the lease agreement entered into between the Group and the lessor or CSAHC, the Group has obtained the rights to use the property and has not acquired the ownership of the property.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
36.	Various properties rented by China Southern Airlines Company Limited Henan Branch	The properties comprise 7 various operational and ancillary buildings and various structures completed in various stages between 1989 and 1993 with a total gross floor area of approximately 917.26 sq.m. (9,873 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE — APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 917.26 / 9,873	The properties are occupied by the Group as offices for operating purposes.

Total:	917.26	9,873

The properties are subject to tenancy agreements for various terms with the latest expiry date in 2010 at a total annual rental of RMB978,416.

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
37.	Various properties rented by China Southern Airlines Company Limited Hubei Branch	The properties comprise 4 various operational and ancillary buildings and various structures completed in various stages between 1990 and 1995 with a total gross floor area of approximately 1,112.70 sq.m. (11,977 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 1,112.70 / 11,977 Total: 1,112.70 / 11,977 The properties are subject to tenancy agreements for various terms with the latest expiry date in 2005 at a total annual rental of RMB1,328,840.	The properties are occupied by the Group as offices for operating purposes.

Note :

We have been provided with a copy of the legal opinion on the legality of

the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
38.	Various properties rented by China Southern Airlines Company Limited Shenzhen Branch	The properties comprise 17 various operational and ancillary buildings and various structures completed in various stages between 1991 and 1997 with a total gross floor area of approximately 2,231.5 sq.m. (24,020 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 2,131.5 / 2,943 Warehouses: 100 / 1,076 Total: 2,231.5 / 24,019 The properties are subject to tenancy agreements for various terms with the latest expiry date in 2012 at a total annual rental of RMB261,771.78.	The properties are occupied by the Group as offices and warehouses for operating purposes.

Note :

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
39.	A parcel of land rented by China Southern Airlines Company Limited Zhuhai Branch	The property comprises a parcel of land with an area of approximately 33,333.50 sq.m. (358,802 sq.ft.). The property is rented from an independent third party under a tenancy agreement for a term expiring in 2019 at a total yearly rental of RMB27,500.	The property is currently occupied by the Group for aircraft runway purposes.

Note :

We have been provided with a copy of the legal opinion on the legality of the use to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreement entered into between the Group and the lessor, the Group has obtained the rights to use the property and has not acquired the ownership of the property.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
40.	Various properties rented by Xiamen Airlines	The properties comprise 102 various operational and ancillary buildings and various structures with a total gross floor area of approximately 37,543.03 sq.m. (404,113 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 36,730.34 / 395,365 Ancillary buildings: 812.7 / 8,748 Total: 37,543.04 / 404,113	The properties are occupied by the Group as offices and staff quarters for operating and ancillary purposes.

The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2013 at a total annual rental of RMB13,485,851.48.

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
41.	Various properties rented by Southern Airlines (Group) Shantou Airlines Company Limited	The properties comprise 4 various operational and ancillary buildings and various structures completed in various stages with a total gross floor area of approximately 55,773 sq.m. (600,341 sq.ft.) and a parcel of land with a site area of approximately 53,000.00 sq.m. Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 366 / 3,940 Warehouses: 2,407 / 25,909 Total: 2,773 / 29,849 The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2043 at a total annual rental of RMB13,628,783.5.	The properties are occupied by the Group as offices and warehouses for operating and ancillary purposes.

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

(ii) Pursuant to the lease agreement of the aforesaid parcel of land with an area of approximately 53,000 sq.m., the buildings erected thereon will be surrendered to the lessor upon expiry of the lease term of 12 years from 1 January, 1997.

	PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY
42.	Various properties rented by Guangxi Airlines Company Limited	The properties comprise 3 various operational and ancillary buildings and various structures completed in various stages between 1998 and 1999 with a total gross floor area of approximately 250.84 sq.m. (2,700 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 250.84 / 2,700 Total: 250.84 / 2,700 The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2006 at a total annual rental of RMB373,508.	The properties are occupied by the Group as offices for operating purposes.

Note :

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not

acquired the ownership of the properties.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	OPEN M IN EXISTI 31 AU
43. Various properties rented by Zhuhai Airlines Company Limited	The properties comprise 6 various operational and ancillary buildings and various structures completed in various stages with a total gross floor area of approximately 2,135.20 sq.m. (22,983 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices: 2,135.20 / 22,983 Total: 2,135.20 / 22,983 The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2008 at a total annual rental of RMB604,584.	The properties are occupied by the Group as offices for operating purposes.	No comme

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	IN
44. Various properties rented by Guizhou Airlines Company Limited	The properties comprise 14 various operational and ancillary buildings and various structures completed in various stages between 1988 and 1996 with a total gross floor area of approximately 2,090.06 sq.m. (22,497 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA Offices: 1,892.06 sq.m. (20,366 sq.ft.) Ancillary buildings: 198 sq.m. (2,131 sq.ft.) Total: 2,090.06 sq.m. (22,497 sq.ft.) The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2018 at a total annual rental of RMB3,535,832.15.	The properties are occupied by the Group as offices and staff quarters for operating and ancillary purposes.	No

Note :

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	IN
45. A property rented by Southern China International Aviation & Travel Services Company	The property comprise 1 operational and ancillary building with a gross floor area of approximately 90 sq.m. (969 sq.ft.).	The property is occupied by the Group as office for operating purposes.	No

Details of the gross floor area of the property is listed as follows:

USE	APPROXIMATE GROSS FLOOR AREA	
	sq.m.	sq.ft.
Office	90	969
Total:	90	969

The property is rented from an independent third party under a tenancy agreement for a term expiring in 2010 at an annual rental of RMB189,504.

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the property prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreement entered into between the Group and the lessors, the Group has obtained the rights to use the property and has not acquired the ownership of the property.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	IN
46. Various properties rented by China Southern Airlines Company Limited Overseas Offices	The properties comprise 99 various operational and ancillary buildings and various structures completed in various stages between 1950's and 2000's with a total gross floor area of approximately 10,333.19 sq.m. (111,226 sq.ft.) in Japan, Malaysia, Korea, Sharjah U.A.E., Singapore, Australia, Vietnam, The Netherlands, Indonesia, France and USA. According to the information provided by the Group, the properties are rented under tenancy agreements for various terms with the latest expiry date in March 2013 at a total annual rental of RMB21,030,673.18.	The properties are occupied by the Group for sales office, dormitory and carport purposes.	No

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

PROPERTIES	DESCRIPTION AND TENURE	PARTICULARS OF OCCUPANCY	IN
47. Various properties rented by China Southern Airlines Operation Department	The properties comprise 67 various operational and ancillary buildings and various structures completed in various stages between 1982 and 2003 with a total gross floor area of approximately 6,804.85 sq.m. (73,247 sq.ft.). Details of the gross floor areas of the properties are listed as follows: USE / APPROXIMATE GROSS FLOOR AREA sq.m. / sq.ft. Offices 5,864.85 63,129 Warehouses 580 6,243 Ancillary buildings 360 3,875 Total: 6,804.85 73,247 The properties are rented from independent third parties under tenancy agreements for various terms with the latest expiry date in 2009 at a total annual rental of RMB8,185,479.12.	The properties are occupied by the Group as offices, warehouses and staff quarters for operating and ancillary purposes.	No

Note:

We have been provided with a copy of the legal opinion on the legality of the use to the properties prepared by Z & T Law Firm, the Company's PRC legal adviser, which contains, inter alia, the following information:

According to the lease agreements entered into between the Group and the lessors, the Group has obtained the rights to use the properties and has not acquired the ownership of the properties.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Listed 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, chief executive and supervisors of the Company 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 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 Companies in Schedule 10 of the Listing Rules are as follows:

NAME	THE COMPANY/ ASSOCIATED CORPORATION	TYPE OF INTEREST	TYPE OF SHARES	NUMBER OF SHARES HELD	% TO THE TOTAL ISSUED SHARE CAPITAL OF THE COMPANY	% TO THE TOTAL ISSUED DOMESTIC SHARES OF THE COMPANY	% TO THE TOTAL ISSUED H SHARES OF THE COMPANY
Simon To	the Company	Interest of spouse (Note 1)	H shares	100,000	0.002%	-	0.009%

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, chief executive or supervisors of the Company has 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 SFO (including interests or short positions which he is 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 Companies.

None of the Directors, chief executive 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, 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 SFO or otherwise persons who are, 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 meetings of any members of the Listed Group are as follows:

THE COMPANY

NAME OF SHAREHOLDER	TYPE OF SHAREHOLDING	TYPE OF SHARES	NUMBER OF SHARES HELD	% OF THE TOTAL ISSUED H SHARES OF THE COMPANY	% OF THE TOTAL ISSUED SHARES CAPITAL OF THE COMPANY	% O TOTAL DOM SHA OF COM
CSAHC	Direct holding	State-owned shares	2,200,000,000	-	50.30%	6
HKSCC Nominees Limited	Direct holding	H shares	1,151,389,998	98.6%	26.32%	

Note: Based on the information available to the Directors, chief executive and supervisors of the Company (including such information as was available on the website of the Stock Exchange) and so far as the Directors, chief executive and supervisors are aware, as at the Latest Practicable Date:

Among the 1,151,389,998 H Shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. had an interest in an aggregate of 154,610,800 H Shares of the Company (representing approximately 13.17% of its then total issued H Shares). Out of the 154,610,800 H Shares, JPMorgan Chase & Co. had an interest in a lending pool comprising 69,960,000 H Shares of the Company (representing approximately 5.96% 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, chief executive and supervisors are aware, JPMorgan Chase & Co. held its interest in the Company in the following manners:

(a) 69,960,000 H Shares in a lending pool, representing approximately 5.96% of the Company's then total issued H Shares, were held by JPMorgan Chase Bank, which was 100% held by JPMorgan Chase & Co.;

(b) 1,030,800 H Shares, representing approximately 0.09% of the Company's then total issued H Shares, were held in the capacity as beneficial owner by JPMorgan Whitefriars Inc., which was ultimately 100% held by JPMorgan Chase & Co.;

(c) 81,978,000 H Shares, representing approximately 6.98% 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 JPMorgan Fleming Asset Management (Asia) Inc., which was ultimately 100% held by JPMorgan Chase & Co.; and

(d) 1,642,000 H Shares, representing approximately 0.14% of the Company's then total issued H Shares, were held in the capacity as investment manager by JF International Management Inc., which was 100% held by JPMorgan Fleming Asset Management (Asia) Inc., which was ultimately 100% held by JPMorgan Chase & Co.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors, chief executive and supervisors of the Company, no other person (other than the Directors, chief executives or supervisors) had an interest or short positions in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO or otherwise had an interest of 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. MATERIAL CONTRACTS

No material contract has been entered into by the Listed Group within the two years immediately preceding the date of this circular.

5. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance pending or threatened against any member of the Listed Group.

6. 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 per cent 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.

7. DIRECTORS' AND SUPERVISORS' INTERESTS

(a) None of the Directors or supervisors of the Company, or any professional advisers named in paragraph 11 of this Appendix has any direct or indirect interest in any assets which have been, since 31 December, 2003, the date to which the latest published audited accounts of the Listed 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 Listed 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 Listed Group.

8. SERVICE CONTRACTS

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

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Listed Group since 31 December, 2003, being the date of the latest published audited financial statements of the Company.

10. CONSENTS

JPMorgan, ICEA, KPMG and Chesterton have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

11. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular.

NAMES	QUALIFICATIONS
JPMorgan	Licensed by the Securities and Futures Commission for Types 1, 4, 6 and regulated activities under SFO
ICEA	Deemed licensed by the Securities and Futures Commission for Types 1, 4 regulated activities under SFO
KPMG	Certified Public Accountants registered in Hong Kong
Chesterton	Chartered Surveyor

12. EXPERTS' INTERESTS IN ASSETS

As at the Latest Practicable Date, each of JPMorgan, ICEA, KPMG and Chesterton:

(a) was not interested, directly or indirectly in any assets which have been acquired or disposed of by or leased to the Company since 31 December, 2003, being the date to which the latest published audited financial statements of the Company were made up; and

(b) did not have any shareholding interest in any member of the Listed Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Listed Group.

13. MISCELLANEOUS

(a) The secretary of the Company is Su Liang.

(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, pursuant to which the Company has published an announcement on 5 November, 2004.

(c) The registered address of the Company is at Guangzhou Economic and 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.

(e) The English text of this circular and the form of proxy shall prevail over the Chinese text in the case of inconsistency.

14. 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 3 December, 2004:

(a) Sale and Purchase Agreement;

(b) Lease Agreement 1, Lease Agreement 2 and Lease Agreement 3;

(c) Catering Agreement;

(d) Financial Services Agreement;

(e) the accountants' reports of the Airline Operations of Northern Airlines Group and the Airline Operations of Xinjiang Airlines Group for each of the years in the three-year period ended 31 December, 2003 and the six-month period ended 30 June, 2004, the text of which is set out in Appendices II and III to this circular respectively;

(f) the audited financial statements of the Company for each of the three financial years immediately preceding the issue of this circular;

(g) the interim financial reports of the Company for the six-month periods ended 30 June, 2003 and 2004;

(h) the letters of consent referred to in paragraph 10 of this Appendix;

(i) the report from KPMG on the unaudited pro forma financial information of the Combined Group dated 12 November, 2004 the text of which is set out in Appendix V to this circular;

(j) the letter from ICEA dated 12 November, 2004 the text of which is set out on pages 29 to 48 of this circular;

(k) the letter from the Independent Board Committee to the Independent Shareholders dated 12 November, 2004, the text of which is set out on pages 27 to 28 of this circular;

(l) the letters relating to the profit forecast, the text of which is set out in Appendix VI of this circular;

(m) the letter dated 12 November, 2004, summary of values and valuation certificate prepared by Chesterton, the texts of which are set out in Appendix VIII to this circular, and the full valuation report (in the Chinese language only) prepared by Chesterton referred to in Appendix VIII;

(n) the Zhong Qi Hua Valuation Reports;

(o) articles of association of the Company; and

(p) the major transaction circular of the Company dated 21 May, 2004 in relation to the acquisition of certain aircraft from Airbus SNC.

NOTICE OF THE EGM

[CHINESE CHARACTER]
[LOGO] CHINA SOUTHERN AIRLINES COMPANY LIMITED
(A JOINT STOCK LIMITED COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

(STOCK CODE: 1055)

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING IN 2004

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of China Southern Airlines Company Limited (the "Company") will be held at No. 278, Ji Chang Road, Guangzhou, Guangdong Province, the PRC on 31 December, 2004 at 9:00 a.m. for the purpose of considering and passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) "THAT the entering into of the sale and purchase agreement dated 12 November, 2004, 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 China Southern Air Holding Company ("CSAHC"), China Northern Airlines Company ("Northern Airlines") and Xinjiang Airlines Company ("Xinjiang Airlines") as vendors 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."

(2) "THAT the entering into of the lease agreement dated 12 November, 2004, 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 the Company, CSAHC and Northern Airlines, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

(3) "THAT the entering into of the lease agreement dated 12 November, 2004, copy of which has been produced to this meeting marked "C" and initialed by the Chairman of this meeting for the purpose of identification, between the Company, CSAHC and Xinjiang Airlines, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

(4) "THAT the entering into of the lease agreement dated 12 November, 2004, copy of which has been produced to this meeting marked "D" and initialed by the Chairman of this meeting for the purpose of identification, between the Company and CSAHC, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

(5) "THAT the entering into of the catering agreement dated 12 November, 2004, copy of which has been produced to this meeting marked "E" and initialed by the Chairman of this meeting for the purpose of identification, between the Company and China Southern Airlines Group Air Catering Company Limited, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

(6) "THAT the entering into of the financial services agreement dated 12 November, 2004, copy of which has been produced to this meeting marked "F" and initialed by the Chairman of this meeting for the purpose of identification, between the Company and Southern Airlines Group Finance Company Limited, and the transactions contemplated thereunder, upon the terms and subject to the conditions therein contained, be and are hereby unconditionally approved."

(7) "THAT the proposed resignation of Mr. Wang Chang Shun as a director of the Company be and is hereby approved."

(8) "THAT the proposed election of Mr. Si Xian Min, as nominated by China Southern Air Holding Company in accordance with the Articles of Association of the Company, as a director of the fourth session of the Board of the Company (the biography of Mr. Si Xian Min is set out below) be and is hereby approved."

By Order of the Board
SU LIANG
Company Secretary

Guangzhou, the People's Republic of China
12 November, 2004

As at the date of this notice, the Directors of the Company include Yan Zhi Qing, Liu Ming Qi, Wang Chang Shun, Peng An Fa, Wang Quan Hua, Zhao Liu An, Zhou Yong Qian, Zhou Yong Jin, Xu Jie Bo 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.

Notes:

1. PERSONS WHO ARE ENTITLED TO ATTEND THE EGM

   a. Holders of H shares of the Company who are registered with Hong Kong Registrars Limited, the registrar of H shares of the Company, at the close of trading in the afternoon of Tuesday, 30 November, 2004 ("Eligible Shareholders") or their representatives are entitled to attend the EGM after completion of the required registration procedures in accordance with Note 2 "Registration procedures for attending the EGM". Holders of A shares of the Company shall receive a notice separately.

   b. The directors, supervisors and senior management of the Company.

   c. Representatives of the professional advisers hired by the Company and special guests invited by the board of directors of the Company.

2. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

   a. Eligible Shareholders who intend to attend the EGM either in person or by proxy must deliver to the Company on or before Friday, 10 December, 2004, in person or by post at the registration address of the Company, or by fax at (+86) 20-8665 9040, the reply slip, which is attached to the notice of the EGM as Attachment A.

   b. When attending the EGM, individual Eligible Shareholder or his/her proxy shall bring along his/her identity card. The legal representative of a corporate Eligible Shareholder attending the EGM shall bring along his/her identity card, together with a notarized copy of the resolution or power of attorney issued by the board of directors or other governing body of the corporate Eligible Shareholder to appoint such legal representative to attend the meeting.

   c. Holders of H shares of the Company who intend to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to Hong Kong Registrars Limited, the registrar of H Shares of the Company, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, at or before 4:00 p.m. on Tuesday, 30 November, 2004.

d. The register of H shares of the Company will be closed from Wednesday, 1 December, 2004 to Thursday, 30 December, 2004 (both days inclusive), during which period no transfer of H shares will be registered.

3. PROXIES

a. An Eligible Shareholder has the right to appoint one or more proxies to attend the EGM and vote on his/her behalf. A proxy does not need to be a shareholder of the Company.

b. A proxy must be appointed by an Eligible Shareholder or his/her attorney by way of a form of proxy for extraordinary general meeting, which is attached to the notice of EGM as Attachment B. If the proxy is appointed by the attorney of an Eligible Shareholder, the power of attorney or other authorization document(s) authorizing such attorney to appoint the proxy must be notarized.

c. To be valid, the notarized power of attorney or other authorization document(s), together with the completed form of proxy for the EGM, must be lodged with Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time designated for the holding of the EGM.

4. MISCELLANEOUS

a. The EGM is expected to last for approximately one day. Eligible Shareholders who attend shall bear their own traveling and accommodation expenses.

b. The address of the headquarters of the Company is:

1st Floor, No. 278 Ji Chang Road
Guangzhou 510405, Guangdong Province
People's Republic of China
Telephone No.: (+86) 20-8612 4737
Facsimile No.: (+86) 20-8665 9040
Website: www.cs-air.com
Contact persons: Su Liang and Lei Bin

c. Pursuant to the 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 per cent 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.

5. BRIEF BIOGRAPHY OF MR. SI XIAN MIN

Mr. Si Xian Min, born in November 1957, graduated from No. 14 Aviation College as an aircraft piloting major with an associate's degree. A professional political tutor, he began his career in civil aviation in 1975. He has held positions as Deputy Director and Director of the political division of China

Southern Airlines Henan Branch in 1992-1998 and Party Secretary and Vice president of Guizhou Airlines in 1998-2000. From 2000 to July 2003, Mr. Si served as Deputy Party Secretary of China Southern Airlines Company Limited. From 2002 to July 2003, he served concurrently as Secretary of the Disciplinary Department of China Southern Airlines Company Limited. He has been Party Secretary of China Northern Airlines since 2003.

Mr. Si Xian Min has no interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which is notifiable to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Securities and Futures Ordinance (including interests or short positions which are taken or deemed to have under such provisions of the Securities and Futures Ordinance) or required to be recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance or which is notifiable to the Company and The Stock Exchange of Hong Kong Limited 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. Further, save as disclosed, Mr. Si Xian Min is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

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: November 29, 2004