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CHINA SOUTHERN AIRLINES CO LTD  
Form 6-K  
September 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 August, 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.  Form 40-F.

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

Yes.  No.

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

China Southern Airlines Company Limited (the "Company") on August 27, 2004 published in local newspapers in Hong Kong an announcement in Chinese and English, respectively, concerning the Company's interim results for the six months ended June 30, 2004. A copy of the English announcement is included in this Form 6-K of the Company.

[LOGO]

[CHINESE CHARACTERS]

CHINA SOUTHERN AIRLINES COMPANY LIMITED  
(A joint stock limited company incorporated in the People's Republic of China  
with limited liability)  
(STOCK CODE: 1055)

2004 INTERIM RESULTS

The board of directors (the "Board") of China Southern Airlines Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the

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six months ended 30 June, 2004, together with the comparative figures for the corresponding period of 2003.

### FINANCIAL RESULTS

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

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Note	FOR THE SIX MONTHS ENDED 30 JUNE,			
		2004 RMB'000	2003 RMB'000	2004 HK\$'000	2004 US\$'000
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
		-----	-----	-----	-----
1					
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
		-----	-----	-----	-----
Total net non-operating expenses		(286,192)	(496,183)	(269,763)	(34,578)
		-----	-----	-----	-----

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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
		=====	=====	=====	=====

### Notes:

#### 1 BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2003 annual financial statements which are prepared in accordance with IFRS.

#### 2 TURNOVER

The Group is principally engaged in the provision of domestic, Hong Kong regional and international passenger, cargo and mail air 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.

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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.

The Group's turnover and operating profit/(loss) by geographic region are analysed as follows:

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	FOR THE SIX MONTHS ENDED 30 JUNE,			
	DOMESTIC	HONG KONG	INTERNATIONAL	TOTAL
	RMB'000	REGIONAL	RMB'000	RMB'000
		RMB'000		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
	=====	=====

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4 TAXATION EXPENSE/(CREDIT)

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000

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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 from 33% to 15% 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 PROFIT APPROPRIATIONS

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.

### 8 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

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rates or at any other certain rates on 30 June, 2004 or on any other date.

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

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000
REVENUE FROM PRINCIPAL OPERATIONS	11,166,992	7,057,009
Less: Transfer to CAAC infrastructure development fund	-	250,788
	-----	-----
NET REVENUE FROM PRINCIPAL OPERATIONS	11,166,992	6,806,221
Less: Costs of principal operations	8,775,648	6,817,521
Business taxes and surcharges	318,252	189,302
	-----	-----
PROFIT/(LOSS) FROM PRINCIPAL OPERATIONS	2,073,092	(200,602)
Add: Profit from other operations	94,503	41,177
Less: Selling expenses	869,667	645,175
Administrative expenses	477,827	500,164
Financial expenses	331,437	454,081
	-----	-----
OPERATING PROFIT/(LOSS)	488,664	(1,758,845)
Add: Investment income/(loss)	28,819	(11,802)
Non-operating income	48,349	4,677
Less: Non-operating expenses	25,011	30,233
	-----	-----
PROFIT/(LOSS) BEFORE INCOME TAX	540,821	(1,796,203)
Less: Income tax	88,026	(544,489)
Minority interests	119,716	(86,957)
	-----	-----
NET PROFIT/(LOSS) FOR THE PERIOD	333,079	(1,164,757)
	=====	=====

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

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

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2004	2003
	RMB'000	RMB'000
Net profit/(loss) under PRC GAAP	333,079	(1,164,757)

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### Adjustments:

Gains on aircraft sale and leaseback transactions	(15,355)	(16,423)
Losses on staff housing allocation	(55,500)	(55,500)
Adjustment for revaluation of land use rights	1,936	-
Effect of the above adjustments on taxation	2,024	5,067
	-----	-----
Net profit/(loss) under IFRS	266,184	(1,231,613)
	=====	=====

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### OPERATING DATA SUMMARY

	FOR THE SIX MONTHS ENDED 30 JUNE,		2004 VS 2003 INCREASE/ (DECREASE) (%)	
	2004	2003		
<b>CAPACITY</b>				
Available seat kilometres (ASKs) (million)				
-Domestic	20,141	13,588	6,553	48.2
-Hong Kong regional	926	581	345	59.4
-International	4,861	3,369	1,492	44.3
	-----	-----	-----	
Total	25,928	17,538	8,390	47.8
	=====	=====	=====	
Available tonne kilometres (ATKs) (million)				
-Domestic	2,333	1,567	766	48.9
-Hong Kong regional	103	65	38	58.5
-International	1,139	926	213	23.0
	-----	-----	-----	
Total	3,575	2,558	1,017	39.8
	=====	=====	=====	
Kilometres flown (thousand)				
	156,041	106,641	49,400	46.3
	=====	=====	=====	
Hours flown (thousand)				
	242	165	77	46.7
	=====	=====	=====	
Number of flight sectors				
-Domestic	117,919	80,538	37,381	46.4
-Hong Kong regional	7,549	4,888	2,661	54.4
-International	7,548	5,330	2,218	41.6
	-----	-----	-----	
Total	133,016	90,756	42,260	46.6
	=====	=====	=====	
<b>TRAFFIC</b>				
Revenue passenger kilometres (RPKs) (million)				
-Domestic	13,644	7,919	5,725	72.3
-Hong Kong regional	573	293	280	95.6
-International	3,025	1,886	1,139	60.4
	-----	-----	-----	
Total	17,242	10,098	7,144	70.7
	=====	=====	=====	
Revenue tonne kilometres (RTKs) (million)				
-Domestic	1,518	927	591	63.8
-Hong Kong regional	57	31	26	83.9

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-International	611	466	145	31.1
	-----	-----	-----	
Total	2,186	1,424	762	53.5
	=====	=====	=====	
	6			
Passenger tonne kilometres				
(million)				
- Domestic	1,219	707	512	72.4
- Hong Kong regional	51	27	24	88.9
- International	270	168	102	60.7
	-----	-----	-----	
Total	1,540	902	638	70.7
	=====	=====	=====	
Cargo and mail tonne kilometres				
(million)				
- Domestic	299	220	79	35.9
- Hong Kong regional	6	4	2	50.0
- International	341	298	43	14.4
	-----	-----	-----	
Total	646	522	124	23.8
	=====	=====	=====	
Passengers carried (thousand)				
- Domestic	11,825	6,839	4,986	72.9
- Hong Kong regional	671	383	288	75.2
- International	819	516	303	58.7
	-----	-----	-----	
Total	13,315	7,738	5,577	72.1
	=====	=====	=====	
Cargo and mail carried				
(thousand tonne)				
- Domestic	218	163	55	33.7
- Hong Kong regional	7	6	1	16.7
- International	42	32	10	31.3
	-----	-----	-----	
Total	267	201	66	32.8
	=====	=====	=====	
LOAD FACTORS				
Passenger load factor				
(RPK/ASK) (%)				
- Domestic	67.7	58.3	9.4	16.1
- Hong Kong regional	61.9	50.4	11.5	22.8
- International	62.2	56.0	6.2	11.1
	-----	-----	-----	
Total	66.5	57.6	8.9	15.5
	=====	=====	=====	
Average load factor				
(RTK/ATK) (%)				
- Domestic	65.1	59.2	5.9	10.0
- Hong Kong regional	55.3	47.7	7.6	15.9
- International	53.6	50.3	3.3	6.6



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Total	61.1	55.7	5.4	9.7
	=====	=====	=====	
Breakeven load factor (%)	58.3	70.4	(12.1)	(17.2)
	=====	=====	=====	

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YIELD

Yield per RPK (RMB)

- Domestic	0.58	0.57	0.01	1.8
- Hong Kong regional	0.93	1.00	(0.07)	(7.0)
- International	0.45	0.43	0.02	4.7

Total	0.57	0.56	0.01	1.8
	=====	=====	=====	

Yield per cargo and  
mail tonne kilometre (RMB)

	1.64	1.77	(0.13)	(7.3)
	=====	=====	=====	

Yield per RTK (RMB)

- Domestic	5.49	5.28	0.21	4.0
- Hong Kong regional	9.98	10.39	(0.41)	(3.9)
- International	3.15	2.83	0.32	11.3

Total	4.96	4.59	0.37	8.1
	=====	=====	=====	

FLEET

Number of aircraft in service at  
period end

- Boeing	113	103	10	9.7
- Airbus	24	22	2	9.1
- Others	2	-	2	N/A

Total	139	125	14	11.2
	=====	=====	=====	

Aircraft utilisation rate  
(hours per day)

- Boeing	9.60	7.39	2.21	29.9
- Airbus	9.27	7.02	2.25	32.1

Total	9.40	7.33	2.07	28.2
	=====	=====	=====	

FINANCIAL

Operating cost per ASK (RMB)	0.40	0.46	(0.06)	(13.0)
Operating cost per ATK (RMB)	2.89	3.17	(0.28)	(8.8)
	=====	=====	=====	

BUSINESS OVERVIEW

In the first half of 2004, with the economy of the PRC entering into a new growth cycle, the demand for air transportation has continued to increase following the growth trend in the aviation transportation market which extended from the second half of last year. The Group's business benefited from such

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growth, with the result that the Group recorded different levels of increases in its passenger volume and passenger load factor, and a net profit of RMB266 million in the first half of this year.

Since last year, the political tension in the Middle East has continued which led to a surge in oil price and in turn caused an increase in the Group's fuel cost. On the premise of ensuring flight safety, the Group has adopted various technical measures to reduce fuel consumption. These measures include making accurate flight plan and minimizing turnaround time. Meanwhile, the Group has taken a series of fuel-saving measures such as refueling in areas where the fuel price is relatively low, so as to minimize the rise in costs.

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With the approval of the State Council, the Proposal on Price Reform for Domestic Operation of Civil Airlines (CHINESE CHARACTERS) was implemented on 20 April, 2004, pursuant to which, indicative air ticket prices set by the PRC government apply to domestic airline operations. The PRC government pricing authority shifted its function from direct determination of air ticket prices to indirect supervision through setting of basic prices and their floating ranges. Chinese airlines can, within the ranges stipulated by the government pricing authority, determine their air ticket prices autonomously according to market situations, so that flexible sales strategies may be adopted for the purpose of maximizing profits. Chinese airlines therefore have greater autonomy in their operations. Taking advantage of the proposal above, the Group's overall passenger revenue increased as a result of adjustment of the air ticket pricing system. The Group is confident to develop its business operations through fair and healthy competition in a market that is becoming further structured.

For the period under review, the Group's total traffic revenue was RMB10,834 million, an increase of RMB4,296 million or 65.7% from the same period last year. Meanwhile, the Group's total traffic volume increased by 53.5% to 2,186 million RTKs. The aggregate utilisation rate of the Group's Boeing and Airbus aircraft was 9.40 hours per day for the period under review, an increase of 2.07 hours or 28.2% from the same period last year.

Passenger revenue for the period under review was RMB9,776 million, up 74.1% from the same period last year, representing 90.2% of the Group's total traffic revenue. Passenger traffic volume increased by 70.7% to 17,242 million RPKs.

Domestic passenger revenue was RMB7,882 million, up 74.7% from the same period last year. Domestic passenger revenue accounted for 80.6% of overall passenger revenue. Passenger capacity, in terms of ASKs, increased by 48.2% while passenger traffic volume, in terms of RPKs, increased by 72.3% from the same period last year, resulting in an increase in passenger load factor of 9.4 percentage points to 67.7%. The passenger yield per RPK increased by 1.8% from RMB0.57 to RMB0.58, mainly as a result of recording the contributions to the CAAC infrastructure development fund as an operating expense instead of being netted off with traffic revenue during the period under review.

On Hong Kong regional routes, the Group recorded passenger revenue of RMB535 million, up 82.6% from the same period last year. Hong Kong regional passenger revenue accounted for 5.5% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 59.4% while passenger traffic volume, in terms of RPKs increased by 95.6% from the same period last year, resulting in an increase in passenger load factor of 11.5 percentage points to 61.9%. The passenger yield per RPK decreased by 7.0% to RMB0.93 mainly due to intensified competition.

Passenger revenue for the Group's international routes amounted to RMB1,359 million, an increase of 67.2% from the same period last year. International

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passenger revenue accounted for 13.9% of total passenger revenue. Passenger capacity, in terms of ASKs, increased by 44.3% while passenger traffic volume, in terms of RPKs, increased by 60.4% from the same period last year, resulting in an increase in passenger load factor of 6.2 percentage points to 62.2%. The passenger yield per RPK increased by 4.7% to RMB0.45 mainly as a result of recording the contributions to the CAAC infrastructure development fund as an operating expense instead of being netted off with traffic revenue during the period under review.

Cargo and mail revenue was RMB1,058 million, an increase of 14.8% from the same period last year. Cargo and mail revenue accounted for 9.8% of total traffic revenue. Cargo and mail volume grew by 23.8% to 646 million RTKs from the same period last year, mainly due to the increase in traffic volume. The overall yield per cargo and mail tonne kilometre decreased by 7.3% to RMB1.64, mainly due to the decrease in fares resulting from intensified competition from other modes of transportation.

The Group's other revenue amounted to RMB260 million, an increase of 33.0% from the same period last year, primarily due to increases in commission income of RMB22 million and ground service income of RMB24 million, as a result of the increase in traffic volume.

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Total operating expenses increased by 27.5% to RMB10,339 million from the same period last year, primarily due to increases in aircraft repairs and maintenance expenses, fuel cost, landing and navigation fees and commission expenses resulting from the increase in traffic volume during the period under review.

Flight operations expenses increased by 34.3% to RMB4,722 million from the same period last year. Of these expenses, fuel cost was RMB2,712 million, up 45.8% from the same period last year, mainly as a result of increases in fuel consumption and fuel prices. Aircraft insurance costs decreased by 31.5% to RMB85 million, primarily due to a decrease in aircraft insurance premiums prescribed by the PRC insurance company. Operating lease payments increased by 0.9% to RMB828 million, mainly due to the net effect of additional rental payments for new aircraft under operating leases and rental savings resulting from the cessation of wet leases of Boeing 747 cargo freighters. Air catering expenses increased by 45.1% to RMB312 million, primarily as a result of an increase in number of passengers carried during the period under review. Labour costs for flight personnel increased by 28.5% to RMB491 million, largely due to an increase in flying hours.

Maintenance expenses increased by 15.7% to RMB1,410 million, due mainly to increases in aircraft overhaul charges and routine maintenance costs resulting from the increase in flying hours during the period under review.

Aircraft and traffic servicing expenses increased by 41.0% to RMB1,689 million from the same period last year, reflecting primarily an increase in number of landing and takeoffs during the period under review.

Promotion and sales expenses increased by 29.7% to RMB874 million from the same period last year, primarily as a result of an increase in traffic revenue.

General and administrative expenses increased by 14.8% to RMB552 million from the same period last year, due mainly to an increase in the scale of operations during the period under review.

Depreciation and amortisation expenses increased by 6.6% to RMB1,083 million from the same period last year, reflecting primarily the effect of aircraft

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delivered during the second half of 2003 and the period under review.

Interest expense decreased by 24.6% to RMB344 million from the same period last year, primarily reflecting the combined effect of scheduled debt repayments and the replacement of certain RMB denominated bank loans of higher interest rates with US\$ denominated bank loans of lower interest rates.

Minority interests increased by 215.2% to RMB108 million from the same period last year, primarily reflecting the net profits earned by certain subsidiaries of the Group for the period under review.

As a result of the aforementioned reasons, the Group earned a profit attributable to shareholders of RMB266 million for the six months ended 30 June, 2004, as compared to a loss attributable to shareholders of RMB1,232 million for the same period last year.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 30 June, 2004, the Group's borrowings totalled RMB22,139 million, an increase of RMB3,679 million from RMB18,460 million as of 31 December, 2003. The majority of such borrowings were denominated in United States dollars and, to a smaller extent, in Japanese yen and Hong Kong dollars, with a significant portion being fixed interest rate borrowings. As of 30 June, 2004, cash and cash equivalents of the Group totalled RMB2,932 million, an increase of RMB852 million from RMB2,080 million as of 31 December, 2003. Of such balance, 15.2% was denominated in foreign currencies. Net debts (total borrowings net of cash and cash equivalents) increased by 17.3% to RMB19,207 million from RMB16,380 million as of 31 December, 2003.

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As of 30 June, 2004, the shareholders' equity of the Group amounted to RMB12,162 million, an increase of RMB266 million from RMB11,896 million as of 31 December, 2003, reflecting the net profit earned for the period under review.

Net debt/equity ratio of the Group as of 30 June, 2004 was 1.58 times, as compared to 1.38 times as of 31 December, 2003.

### FINANCIAL RISK MANAGEMENT POLICY

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

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

### CHARGES ON ASSETS

As of 30 June, 2004, certain aircraft of the Group with an aggregate carrying

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value of approximately RMB13,913 million (as of 31 December, 2003: RMB14,576 million) were mortgaged under certain loan and lease agreements.

### CAPITAL AND INVESTING COMMITMENTS

As of 30 June, 2004, the Group had capital commitments of approximately RMB16,587 million. Of such amounts, RMB14,156 million was related to the acquisition of aircraft and related flight equipment and RMB1,640 million was related to the Group's facilities and equipment to be constructed and installed at the new Guangzhou Baiyun International Airport. The remaining amount of RMB791 million was related to the Group's other airport and office facilities and equipment, overhaul and maintenance bases and training facilities.

As of 30 June, 2004, the Group was committed to making a capital contribution of approximately RMB382 million to its jointly controlled entities.

### CONTINGENT LIABILITIES

There have been no material adverse changes in the contingent liabilities of the Group since 31 December, 2003.

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### RECENT ECONOMIC DEVELOPMENT

Benefited from the strong growth of the China aviation market, the Group's business has been developing continuously and healthily. On 5 August, 2004, the opening of the new Guangzhou Baiyun International Airport which is one of our major operating bases, provides further opportunities for the expansion of the Company's operations. As one of the management's major goals, the Group will strive to maintain and promote the Group's market share in the expanding Guangzhou market. The Group believes that it can improve its ability to adapt to the civil aviation market and consolidate its leading position amongst the Chinese airlines by continually implementing innovations, improvements and upgrades to its various schemes designed to boost sales volume, such as route manager system and the dismissal of underperformed personnel policy. At the same time the Group also accelerates the process of integrating its route networks and transportation capacity, in order to achieve an operation of a traffic network hub.

As disclosed in an announcement of the Company dated 26 July, 2004, in order to enhance the Company's capital utilization rate of its capital and hence its investment return and profit, the Company entered into an asset management agreement with Zhong Zheng Wei Ye Investment Co., Ltd ("Zhong Zheng") (CHINESE CHARACTERS) and Centergate Securities Co., Ltd ("Centergate") (CHINESE CHARACTERS) on 22 July, 2004, pursuant to which the Company and Zhong Zheng jointly appointed Centergate to manage and invest capital investment of the Company and Zhong Zheng in the sum of RMB500 million and RMB75 million respectively. The appointment is effective from 27 July, 2004 to 26 July, 2005. If the annual rate of return from investment is 6% or below, Centergate will not charge any assets management fee. If the annual rate of return from investment exceeds 6%, Centergate will charge an assets management fee equivalent to a sum which is less than 60% of the excess of 6% annual return from investment of the Company's capital. The Board has approved the asset management agreement by way of a written approval in accordance with the articles of association of the Company and the laws of PRC.

### OUTLOOK FOR THE SECOND HALF OF THE YEAR

The country's economy is entering a new cycle of rapid growth, with such growth being driven by factors including the acceleration of urbanization and upgrading

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in consumers' spending. Consumers' spending will provide a new boost for economic growth. With the patterns of the consumers' spending in automobile, housing, communication and travelling becoming the main themes of the upgraded spending pattern, the demand for air transportation will increase. The commencement of operation of the new Guangzhou Baiyun International Airport and the opening of the Company's new terminal in Beijing Capital International Airport also provide ample opportunities for the Group's further development. In order to match the increase in its capacity for growth, the Group will adjust its network allocation, utilize the new airport's enlarged transportation capacity by increasing its transportation volume, with a view to maintaining and increasing its market share as well as revenues from business operations.

The Company will continue to practise strict cost control to improve the overall benefits.

### USE OF PROCEEDS FROM H SHARE AND A SHARES OFFERINGS

As stated in the 2003 Annual Report of the Company, as of 31 December, 2003, the Company has applied all the proceeds from H shares offering. The proceeds from A shares offering has been applied to purchase Boeing aircraft as disclosed in the A share prospectus of the Company. The uses of proceeds were unchanged.

### DIVIDENDS

The Board of Directors does not propose to declare an interim dividend for the year 2004.

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### STRUCTURE OF SHARE CAPITAL

As of 30 June, 2004, the share capital of the Company comprised 4,374,178,000 shares, of which approximately 50.3% or 2,200,000,000 State-owned Shares were held by China Southern Air Holding Company ("CSAHC"), approximately 22.86% or 1,000,000,000 A Shares were held by the PRC investors and approximately 26.84% or 1,174,178,000 H Shares were held by Hong Kong and overseas investors.

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

### SUBSTANTIAL SHAREHOLDERS

As of 30 June, 2004, to the knowledge of the directors, chief executive and supervisors of the Company, the interests and short positions of the following persons other than the directors, chief executives or supervisors in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") or otherwise persons who have an interest of 10% or more in the Company's shares are as follows:

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NAME OF SHAREHOLDER	TYPE OF SHAREHOLDING	TYPE OF SHARE	NUMBER OF SHARES HELD	% OF THE TOTAL ISSUED H SHARES OF THE COMPANY	% OF THE TOTAL ISSUED DOMESTIC SHARES OF THE COMPANY	% OF THE TOTAL ISSUED SHARE CAPITAL OF THE COMPANY
CSAHC	Direct holding	Domestic share	2,200,000,000	-	100%	50.3%
HKSCC Nominees Limited	Direct holding	H share	1,152,155,998	98.1%	-	26.34%

Details of the interests of the Company's shareholders as of 30 June, 2004 will be set forth in the Company's 2004 interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company during the first half of 2004.

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COMPREHENSIVE SERVICES AND EMPLOYEE BENEFITS

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

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

As of 30 June, 2004, the interests and short positions of the directors, chief executive and supervisors in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to SFO (including interest or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of the Listed Companies" in Schedule 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

NAME	THE COMPANY/ ASSOCIATED CORPORATION	TYPES OF INTEREST	TYPE OF SHARE	NUMBER OF SHARES HELD	% TO THE TOTAL ISSUED SHARE CAPITAL OF THE COMPANY	% TO THE TOTAL ISSUED DOMESTIC SHARES OF THE COMPANY
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Simon To	the Company	Interest of spouse (note 1)	H Shares 100,000	0.002%	-
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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 of 30 June, 2004, none of the directors, chief executive or supervisors of the Company has interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to SFO (including interest or short positions which they 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.

### DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 30 June, 2004, the Group's deposits placed with financial institutions or other parties did not include any designated deposits or overdue time deposits against which the Group failed to receive repayments.

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### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Board is not aware of any matter that does not comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### MATERIAL LITIGATION

The Group was not involved in any material litigation or dispute in the six months ended 30 June, 2004.

By order of the Board of Directors  
YAN ZHI QING  
Chairman of the Board of Directors

Guangzhou, the PRC  
26 August, 2004

As of the date of this announcement, 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.

### DOCUMENTS AVAILABLE FOR INSPECTION

Original copy of the Company's 2004 interim report signed by the Chairman of the Board.

### ADDRESS FOR INSPECTION

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



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

"Please also refer to the published version of this announcement in China Daily"

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SIGNATURES

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

CHINA SOUTHERN AIRLINES COMPANY LIMITED

By /s/ Su Liang

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Name: Su Liang

Title: Company Secretary

Date: August 28, 2004