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(COMPANY LOGO)

CHINA SOUTHERN AIRLINES COMPANY LIMITED

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

PROPOSED ISSUE OF 1,000,000,000 A SHARES IN THE PRC

The Board is pleased to announce that the Company received the approval of the CSRC for the A Share Issue on July 4, 2003. The Prospectus will be published on the website of the Shanghai Stock Exchange, and a summary of the Prospectus will be published in newspapers in the PRC on July 7, 2003. An application will be made to the Shanghai Stock Exchange for the listing of the A Shares. The Prospectus includes the Group's audited financial information for each of the three years ended December 31, 2002 and the Group's unaudited financial information for the period from January 1, 2003 to April 30, 2003 prepared in accordance with PRC GAAP.

Reference is made to the announcements published by the Company on January 29, 2002, March 26, 2002 and May 21, 2002, May 13, 2003 and July 3, 2003 regarding, among others, the proposed A Share Issue and the shareholders' resolutions passed at the First Extraordinary General Meeting of the Company on March 26, 2002 and at the Class Meeting for holders of domestic shares, Class Meeting for holders of H shares and the Second Extraordinary General Meeting of the Company on May 21, 2002, and at the annual general meeting of the Company on May 13, 2003, which approved, among others, the application and implementation of the A Share Issue and the proposed listing of such A Shares on the Shanghai Stock Exchange.

The Board is pleased to announce that the Company received the approval of the CSRC for the A Share Issue on July 4, 2003. The Prospectus will be published on the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn), and a summary of the Prospectus will be published in the PRC newspapers on July 7, 2003. An application will be made to the Shanghai Stock Exchange for the listing of the A Shares. The Prospectus includes the Group's audited financial information for each of the three years ended December 31, 2002 and the Group's unaudited financial information for the period from January 1, 2003

to April 30, 2003 prepared in accordance with PRC GAAP. The PRC auditors of the Group are KPMG Huazhen, a firm of certified public accountants in the PRC.

### STRUCTURE OF THE A SHARE ISSUE

A summary of the A Share Issue is set out below:

**Mode of offer:** By way of placing at a fixed price to investors in the secondary market through the trading systems of the Shanghai Stock Exchange and the Shenzhen Stock Exchange

**Number of A Shares to be issued:** 1,000,000,000 domestically listed ordinary A Shares of par value RMB1.00 each, representing approximately 22.9% of the total

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share capital of the Company after the A Share Issue

Issue price: RMB2.70 per A Share

Target subscribers: Secondary market investors who are independent of the Company and its subsidiaries and their promoters, directors, supervisors, chief executive, substantial shareholders and their respective associates and who have RMB denominated ordinary A shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange with a market value of RMB10,000 or above as at the time of closing of trading on July 7, 2003

Application time: On July 10, 2003, during normal trading hours of the Shanghai Stock Exchange and the Shenzhen Stock Exchange (from 9:30 a.m. to 11:30 a.m., and from 1:00 p.m. to 3:00 p.m.)

Stock Exchange for the proposed Shanghai Stock Exchange listing of the A Shares:

Net asset value per Share as of RMB2.64  
December 31, 2002 (based on  
financial statements prepared  
under PRC GAAP):

Estimated net asset value per Share RMB2.64  
as of December 31, 2003

(based on financial statements  
prepared under PRC GAAP,  
taking into account the  
A Share Issue):

Method of underwriting: the 1,000,000,000 A Shares will be fully underwritten by China Galaxy Securities Company Limited as lead manager, an independent third party unconnected with the promoters, directors, supervisors, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them

Target net proceeds: RMB2,640,670,000

### REASONS FOR THE A SHARE ISSUE

The Board believes that the A Share Issue will allow the Company to access another funding channel, provide additional currency for the acquisition of PRC assets, and enhance the shareholders' base. The net proceeds from the A Share Issue are intended primarily to raise capital for the Company to purchase aircraft to replace certain of its existing aircraft, the operating leases of which are due to expire. See "Use of Proceeds" below.

### EFFECTS OF THE A SHARE ISSUE ON THE COMPANY'S CAPITAL STRUCTURE

A summary of the changes in shareholdings (by percentage) in the Company prior to and immediately after the completion of the A Share Issue, based on the assumption that 1,000,000,000 A Shares will be issued, is set out below:

| Types of shares | Prior to the A<br>Share Issue<br>(Shares) | Shareholding<br>percentage (%)<br>(Approximate) | Immediately after<br>completion of the<br>A Share Issue<br>(Shares) | Shareholding<br>percentage (%)<br>(Approximate) |
|-----------------|---|---|---|---|
| -----           | -----                                     | -----   | -----   | -----   |

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|                      |               |       |               |       |
|----------------------|---------------|-------|---------------|-------|
| 1. Non-listed Shares |               |       |               |       |
| State-owned Shares   | 2,200,000,000 | 65.2  | 2,200,000,000 | 50.3  |
| 2. Listed Shares     |               |       |               |       |
| H Shares             | 1,174,178,000 | 34.8  | 1,174,178,000 | 26.8  |
| A Shares             | --            | --    | 1,000,000,000 | 22.9  |
|                      | -----         | ----  | -----         | ----  |
| Total                | 3,374,178,000 | 100   | 4,374,178,000 | 100   |
|                      | =====         | ===== | =====         | ===== |

SUMMARY OF THE AUDITED PRC GAAP FINANCIAL INFORMATION OF THE GROUP

Condensed Consolidated Financial Statements (prepared under PRC GAAP)

(a) Condensed Consolidated Balance Sheet (Assets) (prepared under PRC GAAP)

|  | December 31,<br>2002 | December 31,<br>2001 | December 31,<br>2000 |
|--|----------------------|----------------------|----------------------|
|  | -----<br>RMB'000     | -----<br>RMB'000     | -----<br>RMB'000     |
| Current assets:                          |                      |                      |                      |
| Cash and cash equivalents                | 4,145,300            | 2,958,161            | 4,221,944            |
| Accounts receivable                      | 742,962              | 581,673              | 832,622              |
| Other receivables                        | 404,279              | 209,485              | 237,562              |
| Purchase payments                        | 14,237               | 27,614               | 38,238               |
| Inventories                              | 653,011              | 573,846              | 556,481              |
| Prepaid expenses                         | 165,754              | 139,519              | 125,206              |
|  | -----                | -----                | -----                |
| Total current assets                     | 6,125,543            | 4,490,298            | 6,012,053            |
|  | -----                | -----                | -----                |
| Long-term investments:                   |                      |                      |                      |
| Long term equity investment              | 559,981              | 418,011              | 272,368              |
| Fixed assets:                            |                      |                      |                      |
| Cost                                     | 37,080,309           | 30,850,235           | 30,174,413           |
| Less: Accumulated depreciation           | 9,514,246            | 8,014,482            | 6,413,396            |
| Net book value                           | 27,566,063           | 22,835,753           | 23,761,017           |
| Construction work in progress            | 1,006,964            | 442,337              | 385,445              |
| Construction materials                   | 1,485                | 1,437                | 1,650                |
| Total fixed assets                       | 28,574,512           | 23,279,527           | 24,148,112           |
|  | -----                | -----                | -----                |
| Intangible assets and other assets:      |                      |                      |                      |
| Lease and equipment deposits             | 2,147,038            | 2,395,003            | 438,207              |
| Long-term deferred expenses              | 34,136               | 52,256               | 61,701               |
| Long-term receivables                    | 28,903               | 27,960               | 27,615               |
|  | -----                | -----                | -----                |
| Total intangible assets and other assets | 2,210,077            | 2,475,219            | 527,523              |
|  | -----                | -----                | -----                |
| Total assets                             | 37,470,113           | 30,663,055           | 30,960,056           |

December 31,      December 31,      December 31,

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|   | 2002             | 2001             | 2000             |
|---|------------------|------------------|------------------|
|   | -----<br>RMB'000 | -----<br>RMB'000 | -----<br>RMB'000 |
| <b>Current liabilities:</b>                     |                  |                  |                  |
| Short-term borrowings                           | 4,443,426        | 1,431,728        | 129,755          |
| Bills payable                                   | 1,299,680        | -                | -                |
| Accounts payable                                | 900,926          | 749,480          | 843,896          |
| Sales in advance of carriage                    | 390,531          | 370,546          | 339,510          |
| Accrued payroll                                 | 73,702           | 67,059           | 65,292           |
| Staff welfare payable                           | 179,984          | 179,020          | 159,499          |
| Dividends payable                               | --               | 67,484           | --               |
| Taxes payable                                   | 122,657          | 222,567          | 208,176          |
| CAAC Infrastructure Development<br>Fund payable | 280,706          | 525,607          | 498,813          |
| Other payables                                  | 2,897            | 5,260            | 2,953            |
| Other creditors                                 | 692,246          | 554,132          | 532,469          |
| Accrued expenses                                | 2,286,136        | 2,295,322        | 2,271,502        |
| Long-term liabilities due within one year       | 2,384,498        | 2,198,340        | 2,429,516        |
|   | -----            | -----            | -----            |
| Total current liabilities                       | 13,057,389       | 8,666,545        | 7,481,381        |
|   | -----            | -----            | -----            |
| <b>Long-term liabilities:</b>                   |                  |                  |                  |
| Long-term borrowings                            | 5,911,590        | 3,627,594        | 3,788,698        |
| Obligations under finance leases                | 6,631,751        | 7,691,634        | 9,416,285        |
| Provision for major overhauls                   | 141,887          | 125,661          | 166,083          |
| Deferred credits                                | 249,411          | 67,742           | 15,167           |
| Deferred taxation                               | 1,043,303        | 761,724          | 468,154          |
| Total long term liabilities                     | 13,977,942       | 12,274,355       | 13,854,387       |
|   | -----            | -----            | -----            |
| Total liabilities                               | 27,035,331       | 20,940,900       | 21,335,768       |
| Minority interests                              | 1,540,188        | 1,340,906        | 1,266,169        |
| <b>Shareholders' equity:</b>                    |                  |                  |                  |
| Share capital                                   | 3,374,178        | 3,374,178        | 3,374,178        |
| Capital reserve                                 | 4,160,578        | 4,160,578        | 4,160,578        |
| Surplus reserve                                 | 585,372          | 501,634          | 433,062          |
| Retained profits                                | 774,466          | 344,859          | 390,301          |
| Total shareholders' equity                      | 8,894,594        | 8,381,249        | 8,358,119        |
|   | -----            | -----            | -----            |
| Total liabilities and shareholders' equity      | 37,470,113       | 30,663,055       | 30,960,056       |
|   | =====            | =====            | =====            |

(b) Consolidated Statements of Income and Profit Appropriations (prepared under PRC GAAP)

|   | 2002             | 2001             | 2000             |
|---|------------------|------------------|------------------|
|   | -----<br>RMB'000 | -----<br>RMB'000 | -----<br>RMB'000 |
| Revenue from principal operations                         | 18,805,510       | 17,761,764       | 15,858,927       |
| Less: Transfer to CAAC Infrastructure<br>Development Fund | 798,386          | 759,385          | 666,982          |
| Net revenue from principal operations                     | 18,007,124       | 17,002,379       | 15,191,945       |
| Less: Costs of principal operations                       | 13,118,104       | 12,797,032       | 11,588,537       |
| Business taxes and surcharges                             | 525,250          | 540,847          | 485,786          |
| Profit from principal operations                          | 4,363,770        | 3,664,500        | 3,117,622        |
| Add: Profit from other operations                         | 325,327          | 248,861          | 307,853          |

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|                                     |           |           |           |
|-------------------------------------|-----------|-----------|-----------|
| Less: Operating expenses            | 1,527,255 | 1,561,442 | 1,395,421 |
| General and administration expenses | 1,013,506 | 850,297   | 757,720   |
| Financial expenses                  | 1,095,219 | 587,062   | 665,451   |

|  | 2002      | 2001     | 2000     |
|--|-----------|----------|----------|
|  | -----     | -----    | -----    |
|  | RMB '000  | RMB '000 | RMB '000 |
| Operating profit   | 1,053,117 | 914,560  | 606,883  |
| Add: Investment income   | 10,473    | 5,181    | 8,884    |
| Non-operating income   | 8,627     | 1,931    | 387,745  |
| Less: Non-operating expenses   | 40,531    | 8,513    | 17,578   |
| Profit before income tax   | 1,031,686 | 913,159  | 985,934  |
| Less: Income tax   | 353,230   | 331,925  | 359,726  |
| Profit after income tax  | 678,456   | 581,234  | 626,208  |
| Less: Minority interests   | 165,111   | 164,186  | 90,552   |
| Net profit for the year  | 513,345   | 417,048  | 535,656  |
| Add: Retained profits/(accumulated losses)<br>at beginning of the year | 344,859   | 390,301  | (20,587) |
| Less: Adjustment to retained profits                                   | --        | 326,434  | 38,725   |
| Profits available for distribution                                     | 858,204   | 480,915  | 476,344  |
| Less: Transfer to statutory surplus reserve fund                       | 51,335    | 41,705   | 53,565   |
| Transfer to statutory public welfare fund                              | 25,667    | 20,852   | 26,783   |
| Transfer to discretionary surplus reserve                              | 6,736     | 6,015    | 5,695    |
| Profits available for distribution to shareholders                     | 774,466   | 412,343  | 390,301  |
| Less: Dividends payable  | --        | 67,484   | --       |
| Retained profits carried forward                                       | 774,466   | 344,859  | 390,301  |

### (c) Condensed Consolidated Cash Flow Statement

|   | 2002        |
|---|-------------|
|   | -----       |
|   | RMB '000    |
| Net cash inflow from operating activities   | 4,774,778   |
| Net cash outflow from investment activities | (5,855,264) |
| Net cash inflow from financing activities   | 2,267,625   |
| Net increase in cash and cash equivalents   | 1,187,139   |

### PROSPECTUS

A summary of the Prospectus will be published in the China Securities News, Shanghai Securities News and Securities Times on July 7, 2003 and the Prospectus will be published on the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn).

### USE OF PROCEEDS

The net proceeds from the A Share Issue, after deducting expenses, will be used to purchase B737-800 aircraft and related onboard fittings and equipment, in replacement of 20 existing B737-300 and B737-500 aircraft, the operating leases of which are expiring. Details of the purchase of aircraft were disclosed previously in the Company's press announcement dated October 3, 2001 and the

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Company's circular to shareholders dated October 26, 2001. If the net proceeds of the A Share Issue exceed the sums required for the foregoing purposes, the surplus will be used to repay the Company's long-term debt due for repayment within one year and to supplement the Company's working capital; if the net proceeds of the A Share Issue are insufficient for the foregoing purposes, the shortfall will be raised through commercial borrowings. According to the terms of the contract between the Company and the Boeing Company for the purchase of 20 B737-800 aircraft, the delivery of the 20 aircraft will take place between August 2002 and March 2005. Upon receipt of the proceeds of the A Share Issue, the Company will make the advance payments and payment of the outstanding balance in accordance with the payment schedule.

Details as to the use of proceeds from the A Share Issue will be disclosed in the subsequent annual report(s) of the Company.

### PROFIT FORECAST

The Prospectus includes a Profit Forecast.

The Profit Forecast has been prepared on the basis of the assumptions made by the Directors and in accordance with PRC GAAP and accounting policies consistent with the financial and accounting information of the Company set out in the Prospectus. The preparation of the Profit Forecast is solely the responsibility of the Board. The compilation and calculation of the Profit Forecast have been reviewed by the Company's PRC auditors, KPMG Huazhen, a firm of certified public accountants in the PRC. The Company wishes to caution investors that the forward-looking statements set forth in the Profit Forecast below have not been prepared with a view toward compliance with published guidelines of the Hong Kong Society of Accountants or the American Institute of Certified Public Accountants regarding forecasts. The Profit Forecast may be subject to adjustments if it were to be prepared in accordance with IFRS. The Profit Forecast has not been reviewed by any independent financial advisers or certified public accountants in Hong Kong. Investors are drawn to the attention of the fact that owing to the uncertainty of the assumptions on which the Profit Forecast is based, investors should read the Profit Forecast with caution and should not rely unduly on the Profit Forecast in making investment decisions.

Statement of Profit Forecast (prepared under PRC GAAP)

|  | January-April     |                  | May-December     |                 |
|--|-------------------|------------------|------------------|-----------------|
|  | 2003<br>Unaudited | 2003<br>Forecast | 2003<br>Forecast | 2002<br>Audited |
|  | RMB'000           | RMB'000          | RMB'000          | RMB'000         |
| Revenue from principal operations                      | 5,935,941         | 11,121,274       | 17,057,215       | 18,805,511      |
| Less: Transfer to CAAC Infrastructure Development Fund | 250,788           | 145,015          | 395,803          | 798,381         |
| Net revenue from principal operations                  | 5,685,153         | 10,976,259       | 16,661,412       | 18,007,129      |
| Less: Costs of principal operations                    | 4,790,782         | 8,053,934        | 12,844,716       | 13,118,101      |
| Business taxes and surcharges                          | 165,970           | 93,058           | 259,028          | 525,251         |
| Profit from principal operations                       | 728,401           | 2,829,267        | 3,557,668        | 4,363,777       |
| Add: Profit from other operations                      | 68,463            | 127,195          | 195,658          | 325,321         |
| Less: Operating expenses                               | 469,843           | 908,282          | 1,378,125        | 1,527,251       |
| General and administration expenses                    | 318,854           | 617,749          | 936,603          | 1,013,501       |
| Financial expenses                                     | 150,989           | 290,533          | 441,522          | 513,750         |
|  | 319,054           | 720,971          | 1,040,025        | 1,095,211       |

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|                                 |           |         |         |           |
|---------------------------------|-----------|---------|---------|-----------|
| Operating (loss)/profit         | (310,887) | 709,460 | 398,573 | 1,053,111 |
| Add: Investment income          | 4,745     | 4,386   | 9,131   | 10,477    |
| Non-operating income            | 4,325     | 2,577   | 6,902   | 8,622     |
| Less: Non-operating expenses    | 8,296     | 1,026   | 9,322   | 40,533    |
| (Loss)/profit before income tax | (310,113) | 715,397 | 405,284 | 1,031,688 |
| Less: Income tax                | (101,695) | 223,280 | 121,585 | 353,233   |
| (Loss)/profit after income tax  | (208,418) | 492,117 | 283,699 | 678,455   |
| Less: Minority interests        | 10,241    | 70,816  | 81,057  | 165,111   |
| Net (loss)/profit               | (218,659) | 421,301 | 202,642 | 513,344   |

### Principal Assumptions for Profit Forecast

1. Below are the principal assumptions on which the Profit Forecast has been prepared.

2. There will be no material change in the politics, laws and regulations, financial and economic condition of all countries and regions that the Group's businesses operate in.

3. The Group will continue to be granted authorization to operate existing routes and flights and new routes proposed to be launched in 2003. The Group operated 350 domestic and international routes with 4,300 flights per week as at the end of March 2003. As a result of the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group reduced its flights to 1,433 per week in early June 2003 and suspended around 12 routes. The Group anticipates that the number of flights is expected to return to a normal level and its suspended routes are expected to be re-opened gradually in late June 2003. Besides, the Group launched five new routes during the first six months of 2003 (with an average of 12 flights per week). Currently the Group has no plans to launch new routes in the second half year of 2003.

4. The Group will continue to obtain renewals from the CAAC of all licences necessary for the operation of its aviation business.

5. All airline companies are exempted from payments for the CAAC Infrastructure Development Fund, business taxes and relevant surcharges from May 1, 2003 to September 30, 2003, as a result of the Chinese Government's efforts to reduce financial pressure on China's civil aviation industry resulting from the outbreak of SARS. Except for this, there will be no material change in the tax base or tax rate of all countries and regions that the Group's businesses operate in.

6. The Group will continue to be supplied by domestic aviation fuel suppliers, including China Aviation Oil Supply Co., Ltd., Lan Tian Aviation Oil Supply Co., Ltd., East China Aviation Oil Supply Co., Ltd. and North China Aviation Oil Supply Co., Ltd., with sufficient aviation fuel necessary for all flights on the terms and conditions set forth by the State.

7. The Chinese Government will continue to provide the insurance guarantee necessary for all aircraft of the Group.

8. The Group will purchase new aircraft and put them into service according to existing plans. The Group will have available sufficient financing to purchase new aircraft and obtain guarantees from banks to support financing arrangements when necessary. As of the end of May 2003, the Group had already purchased three new B737-800 aircraft from Boeing Company as planned and received long-term



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loans from Bank of China in a total amount of about RMB1,140 million to purchase aircraft according to its financing arrangements. The Group will, as scheduled, purchase another four new B737-800 aircraft from July to November this year and the Group has obtained the agreement of Bank of China and the Industrial and Commercial Bank of China to provide long-term bank loans in a total amount of about RMB1,520 million to purchase the aircraft. The depreciation of these new aircraft purchased this year is around RMB50 million. The Group would face heavy penalties and damage to its reputation if the purchase of these aircraft cannot be completed as scheduled.

9. The Group's business will not be adversely affected by labour shortages, labour disputes or any factor beyond the management's control. The Group will be able to recruit enough employees to satisfy such service requirements as contemplated in its Profit Forecast.

10. There will be no acute price competition in China's civil aviation industry in 2003 and the average airfare will be no lower than for the same period last year. There will be no material change in published airfares for domestic routes in 2003. Domestic routes charge passengers airfare based on the published airfare set forth by the CAAC plus a fuel surcharge and minus a preferential discount. There has been no adjustment in the published airfare from the beginning of 2002 to the date of the Prospectus. The price discount ratio given by the Group to our passengers is determined according to the stipulations of the CAAC and taking into consideration competition on various routes. There will be no material change in such price discount ratio.

Oil surcharge is charged to passengers of domestic routes according to CAAC's approval documents as follows:

|  |   |
|--|---|
| From January 1, 2002 to September 30, 2002 | No more than 8% of published airfare for every passenger  |
| From October 1, 2002 to June 22, 2003      | No more than 14% of published airfare for every passenger |
| From June 23, 2003 onwards                 | No more than 8% of published airfare for every passenger  |

The Group's passenger yield (calculated by passenger revenue per kilometre) was RMB0.596 from January to April this year, a 3% increase from RMB0.577 for the same period last year and an approximately 2% rise from the annual average RMB0.584 for 2002, mainly resulting from an increase in domestic fuel surcharge charging rate in October last year. However, with a drop of charging rate of domestic fuel surcharge this June, the Group foresees a similar average charging rate of fuel surcharge this year compared to that of last year. According to current domestic airfare and discount level, the Group forecasts that the passenger yield for 2003 will be similar to that of last year, i.e., RMB0.584. The passenger yield during May to December 2003 is expected to be RMB0.575, a 2% drop from RMB0.587 for the same period last year.

11. Currently, the outbreak of SARS is contained to a certain degree in China. The World Health Organization ("WHO") announced on June 13, 2003 in Geneva the lifting

of its recommendation that people should postpone all but essential travel to Tianjin, Hebei, Shanxi and Inner Mongolia in China. In addition, WHO removed Tianjin, Hebei, Shanxi, Inner Mongolia, Jilin, Jiangsu, Hubei and Guangdong from the list of areas with recent local transmission on the same date. Shigeru Omi,

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the WHO's Western Pacific regional director announced in Beijing on June 24, 2003 that the travel warning to Beijing had been lifted and Beijing was now off the SARS-affected list. At this time, all provinces in China previously subject to the WHO travel warning or in the list of areas with recent local transmission are no longer categorized as such. There is an indication of recovery in China's civil aviation transportation industry in June. However, SARS is an independent, occasional and unexpected event with no similar occurrence in the world for comparison. Therefore, no forecast of the recovery and development of the passenger transportation business in respect of China's civil aviation industry for the period from June to December 2003 can be made directly based on historical data. As a result, assuming there is no recurrence of SARS, an assumption as to the passenger transportation business of China's civil aviation industry from June to December 2003 is made as follows:

(1) In June 2003, China civil aviation transportation industry will achieve a passenger volume of 35% of that of the same period in 2002.

(2) In July 2003, China civil aviation transportation industry will achieve a passenger volume of 80% of that of the same period in 2002.

(3) In August 2003, China civil aviation transportation industry will achieve a passenger volume of 100% of that of the same period in 2002.

(4) In September 2003, China civil aviation transportation industry will achieve a passenger volume of 108% of that of the same period in 2002.

(5) During October to December 2003, China civil aviation transportation industry will return to a normal level, achieving a passenger volume of 114% of that of the same period in 2002.

12. There will be no material changes in exchange rates and interest rates.

13. There will be no unforeseeable factors or force majeure that will materially and adversely affect the Group's forecast performance for the year 2003.

### SUPPLEMENTARY INFORMATION FOR HOLDERS OF H SHARES AND AMERICAN DEPOSITARY SHARES

There are differences on the results of the financial statement prepared under PRC GAAP and those prepared under IFRS. The effects on net profit for the year of significant differences between PRC GAAP and IFRS are summarized as follows:

|   | 2002<br>-----<br>RMB'000 | 2001<br>-----<br>RMB'000 | 2000<br>-----<br>RMB'000 |
|---|--------------------------|--------------------------|--------------------------|
| Net profit under PRC GAAP                   | 513,345                  | 417,048                  | 535,656                  |
| Adjustments:                                |                          |                          |                          |
| Sale and leaseback accounting               | 188,886                  | 74,058                   | 23,065                   |
| Loss on disposal of staff quarters          | (95,833)                 | (151,434)                | (85,000)                 |
| Revaluation of land use rights              | 3,645                    | --                       | --                       |
| Effect of the above adjustments on taxation | (34,282)                 | 553                      | 28,050                   |
|   | -----                    | -----                    | -----                    |
| Net profit under IFRS                       | 575,761                  | 340,225                  | 501,771                  |
|   | =====                    | =====                    | =====                    |

The effects on shareholders' equity of significant differences between PRC GAAP and IFRS are summarized as follows:

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|   | December 31,<br>2002 | December 31,<br>2001 | December 31,<br>2000 |
|---|----------------------|----------------------|----------------------|
|   | -----<br>RMB'000     | -----<br>RMB'000     | -----<br>RMB'000     |
| Shareholder's equity under PRC GAAP         | 8,894,594            | 8,381,249            | 8,358,119            |
| Adjustments:                                |                      |                      |                      |
| Sale and leaseback accounting               | 244,556              | 55,670               | (18,388)             |
| Loss on disposal of staff quarters          | 419,167              | 515,000              | 340,000              |
| Revaluation of land use rights              | (169,292)            | --                   | --                   |
| Dividends payable                           | --                   | 67,484               | --                   |
| Effect of the above adjustments on taxation | 224,182              | 202,260              | 201,707              |
|   | -----                | -----                | -----                |
| Shareholders' equity under IFRS             | 9,613,207            | 9,221,663            | 8,881,438            |
|   | =====                | =====                | =====                |

CERTAIN RISK FACTORS DISCLOSED IN THE PROSPECTUS

The following is an extract of selected risk factors from the Prospectus:

1. Although the Group currently has a healthy operating cash flow, there is no assurance that sufficient cash flows will continue to be available for the Group to meet its major funding requirements for anticipated development. Accordingly, the continued ability of the Group to raise sufficient funds is a factor that could have an impact on the Group's operations and further development.

2. Although the B737-800 aircraft that the Company intends to purchase are superior to the existing B737-300 and B737-500 aircraft in terms of performance, operational reliability and comfort, there is uncertainty as to the ability of the Company to increase its market share in line with the capacity of the new aircraft.

3. The PRC has joined the WTO. The PRC market for aircraft maintenance and repair and computer ticketing systems will accordingly be opened to foreign providers. As such, increased competition from foreign companies may have an adverse effect on the operating results of the Group.

4. In the event that the insurance coverage for third party war liability of claim for more than US\$50 million per incident, under war liability insurance provided to the Group by the PRC Government is withdrawn, or premiums for war liability insurance are increased, insurance premium expenditures of the Group will increase.

Definitions

"A Shares" domestic RMB-denominated ordinary shares of the Company with a nominal value of RMB1.00 each

"A Share Issue" the proposed issue of A Shares to investors who have RMB denominated ordinary A shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange of a market value of RMB10,000 or above as at the time of closing of trading on July 7, 2003, which are proposed to be listed and traded on the Shanghai Stock Exchange

"associate" has the same meaning as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

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"Board" the board of Directors

"CAAC" Civil Aviation Administration of China

"Company" China Southern Airlines Company Limited

"CSRC" China Securities Regulatory Commission

"Directors" the directors of the Company

"Group" the Company and its subsidiaries

"H Shares" the overseas listed foreign shares of the Company, with a nominal value of RMB1.00 each and listed on The Stock Exchange of Hong Kong Limited

"IFRS" International Financial Reporting Standards

"PRC" the People's Republic of China excluding, for the purposes of this announcement, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan

"PRC GAAP" the PRC Accounting Rules and Regulations

"Profit Forecast" the profit forecast of the Company for the year ending December 31, 2003 prepared under PRC GAAP and in accordance with assumptions made by the Directors

"Prospectus" the prospectus of the Company in respect of the A Share Issue

"RMB" Renminbi, the lawful currency of the PRC

"Shares" Stated-owned share(s), H Share(s) in issue and A Share(s) to be issued in the Company

"Shanghai Stock Exchange" Shanghai Stock Exchange of the PRC

"Shenzhen Stock Exchange" Shenzhen Stock Exchange of the PRC

"WTO" World Trade Organisation

By order of the Board

Su Liang

Company Secretary

Guangzhou, the People's Republic of China

July 4, 2003

### 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.

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CHINA SOUTHERN AIRLINES COMPANY LIMITED

By \_\_\_\_\_ /s/ Su Liang

Name: Su Liang

Title: Company Secretary

Date: July 7, 2003