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中国南方航空股份有限公司 CHINA SOUTHERN AIRLINES COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1055)

2009 ANNUAL RESULTS

The board of directors (the "Board") of China Southern Airlines Company Limited (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 together with the comparative figures for 2008:

FINANCIAL RESULTS

A. Prepared in accordance with International Financial Reporting Standards ("IFRSs")

Consolidated Income Statement for the year ended 31 December 2009

	Note	2009 RMB million	2008 RMB million
Operating revenue			
Traffic revenue		52,967	53,913
Other operating revenue		1,835	1,375
Total operating revenue	3	54,802	55,288
Operating expenses			
Flight operations	4	29,296	34,982
Maintenance		4,446	4,890
Aircraft and traffic servicing		9,169	8,476
Promotion and sales		4,170	3,491
General and administrative		1,844	2,041
Impairment on property, plant and equipment	5	26	1,884
Depreciation and amortisation		5,971	5,746
Others		429	257
Total operating expenses		55,351	61,767
Other net income	6	1,989	833
Operating profit/(loss)		1,440	(5,646)

		2009	2008
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Interest income		68	103
Interest expense	7	(1,497)	(1,987)
Share of associates' results		69	(12)
Share of jointly controlled entities' results		214	170
Gain/(loss) on derivative financial instruments, net		45	(124)
Exchange gain, net		93	2,592
Gain on sale of a jointly controlled entity		–	143
Gain on sale of equity interest in subsidiaries		–	37
Profit/(loss) before taxation		432	(4,724)
Income tax credit/(expense)	8	95	(62)
Profit/(loss) for the year		527	(4,786)
Attributable to:			
Equity shareholders of the Company		330	(4,823)
Minority interests		197	37
Profit/(loss) for the year		527	(4,786)
Earnings/(loss) per share			
Basic and diluted	10	RMB0.05	RMB(0.74)

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Profit/(loss) for the year	527	(4,786)
Other comprehensive income for the year (after tax and reclassification adjustments):		
Available-for-sale securities: net movement in the fair value reserve	<u>30</u>	<u>(192)</u>
Total comprehensive income for the year	<u>557</u>	<u>(4,978)</u>
Attributable to:		
Equity shareholders of the Company	349	(4,988)
Minority interests	<u>208</u>	<u>10</u>
Total comprehensive income for the year	<u>557</u>	<u>(4,978)</u>

Consolidated Balance Sheet at 31 December 2009

	<i>Note</i>	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Non-current assets			
Property, plant and equipment, net		63,673	53,237
Construction in progress		18,059	17,321
Lease prepayments		516	531
Interest in associates		257	235
Interest in jointly controlled entities		728	1,048
Other investments in equity securities		166	166
Lease deposits		564	563
Available-for-sale equity securities		93	114
Deferred tax assets		479	167
Other assets		558	412
		85,093	73,794
Current assets			
Inventories		1,256	1,229
Trade receivables	<i>11</i>	1,359	1,317
Other receivables		1,408	1,371
Prepaid expenses and other current assets		711	620
Amounts due from related companies		51	11
Pledged bank deposits		–	51
Cash and cash equivalents		4,343	4,649
		9,128	9,248
Asset classified as held for sale		529	–
		9,657	9,248

	<i>Note</i>	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Current liabilities			
Financial liabilities		44	116
Bank and other loans		17,452	22,178
Short-term financing bills		–	2,000
Obligations under finance leases		1,431	1,781
Trade and bills payables	12	4,992	1,353
Sales in advance of carriage		2,196	2,244
Deferred revenue		316	261
Income tax payable		44	120
Amounts due to related companies		94	102
Accrued expenses		8,153	8,420
Other liabilities		3,376	2,963
		38,098	41,538
Net current liabilities		(28,441)	(32,290)
Total assets less current liabilities		56,652	41,504
Non-current liabilities and deferred items			
Bank and other loans		27,875	17,429
Obligations under finance leases		11,887	11,157
Deferred revenue		594	445
Provision for major overhauls		953	945
Provision for early retirement benefits		148	179
Deferred benefits and gains		1,080	1,109
Deferred tax liabilities		853	761
		43,390	32,025
Net assets		13,262	9,479
Capital and reserves			
Share capital		8,003	6,561
Reserves		2,348	460
Total equity attributable to equity shareholders of the Company		10,351	7,021
Minority interests		2,911	2,458
Total equity		13,262	9,479

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

	Attributable to equity shareholders of the Company							
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million (Note)	Retained earnings/ (accumulated losses) RMB million	Total RMB million	Minority interests RMB million	Total equity RMB million
Balance at 1 January 2008	4,374	5,325	183	607	1,374	11,863	2,447	14,310
Changes in equity for 2008:								
Bonus share issue	2,187	(2,187)	-	-	-	-	-	-
Acquisition of China Southern West Australian Flying College Pty Limited	-	-	-	(5)	-	(5)	-	(5)
Disposal of partial equity interest in a subsidiary to minority shareholders	-	-	-	-	-	-	24	24
Distributions to minority shareholders	-	-	-	-	-	-	(28)	(28)
Government contributions	-	-	-	151	-	151	5	156
Total comprehensive income for the year	-	-	(165)	-	(4,823)	(4,988)	10	(4,978)
Balance at 31 December 2008	<u>6,561</u>	<u>3,138</u>	<u>18</u>	<u>753</u>	<u>(3,449)</u>	<u>7,021</u>	<u>2,458</u>	<u>9,479</u>
Balance at 1 January 2009	6,561	3,138	18	753	(3,449)	7,021	2,458	9,479
Changes in equity for 2009:								
Issuance of shares	1,442	1,538	-	-	-	2,980	-	2,980
Paid in capital from minority equity holders of subsidiaries	-	-	-	-	-	-	261	261
Liquidation of subsidiaries	-	-	-	-	-	-	(6)	(6)
Distributions to minority shareholders	-	-	-	-	-	-	(10)	(10)
Government contributions	-	-	-	1	-	1	-	1
Total comprehensive income for the year	-	-	19	-	330	349	208	557
Balance at 31 December 2009	<u>8,003</u>	<u>4,676</u>	<u>37</u>	<u>754</u>	<u>(3,119)</u>	<u>10,351</u>	<u>2,911</u>	<u>13,262</u>

Note: Other reserves represent statutory surplus reserve, discretionary surplus reserve and others.

1 Company background

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

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

The 2007 bonus share issue of 2,187,089,000 shares, by the conversion of share premium to share capital, was implemented in August 2008.

On 20 August 2009 and 21 August 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung Holding Ltd. ("Nan Lung"), a wholly-owned subsidiary of CSAHC, respectively.

2 Adoption of new and revised IFRSs

(a) Standards, amendment and interpretations effective in 2009

The International Accounting Standards Board (the "IASB") has issued certain new and revised IFRSs and interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Amendments to IFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to IFRSs (2008)
- IAS 23, Borrowing costs
- IAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- IFRIC 13, Customer loyalty programmes

The amendments to Improvements to IFRSs (2008) and IAS 23 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker. Corresponding amounts have been provided on a basis consistent with the revised segment information.
- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the year, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
- During the year ended 31 December 2008, the Group early adopted IFRIC 13, Customer loyalty programmes, which is effective for accounting periods beginning on or after 1 July 2008.

(b) *Change in accounting policy for property, plant and equipment*

Under IFRSs, the Company has the option to use the revaluation model or historical cost model to account for its property, plant and equipment ("PP&E"). Previously, the Company adopted the revaluation model in accordance with IAS 16. In 2009, the Company changed its IFRS accounting policy in respect of PP&E from the revaluation model to the historical cost model to increase the relevance of financial data to the users of the financial statements for the following factors:

- The alignment of the Group's accounting policy with industry peers – management considers that the historical cost model will improve comparability of certain financial performance data and results of operations of the Group with other airlines. The valuation model is not commonly used by leading global airlines and the valuation data is generally not relevant to the operation of airlines except upon disposal of aircraft or assessment of impairment of aircraft.
- Increased comparability between finance and operating leased aircraft – under the old policy the depreciation cost of a finance leased aircraft was based on the revalued amount whereas operating lease payments are based on cost as aircraft held under operating leases are not recognised as assets subject to valuation. Management therefore considers that the change to the cost model increases the level of consistency in accounting for aircraft which are not distinguished from an operational perspective.
- The high degree of subjectivity and risk of cyclical volatility associated with external valuation and second hand aircraft fair values – the market value of second hand aircraft can be volatile and is influenced by transactions in global markets that may have little relevance to the operating environment in China. Management does not believe that financial statements that reflect, often subjective, movements in second hand values provide meaningful information to investors.

This change in accounting policy has been accounted for retrospectively, and the comparative financial information has also been restated. This change in accounting policy has no effect on reported profit or loss, total income and expenses or net assets for the years ended 31 December 2007, 2008 and 2009. The change in accounting policy only resulted in changes in the cost and accumulated depreciation of the PP&E of the same amount with no profit or loss effect. As the effect of change in accounting policy was not material to financial statements, no comparative balance sheet as at 1 January 2008 is presented.

3 Turnover and segmental information

(a) Turnover

The Group is principally engaged in the provision of domestic, Hong Kong, Macau and Taiwan and international passenger, cargo and mail airline services.

Turnover comprises revenue from airline and airline-related business and is stated net of sales tax.

(b) Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Group's chief operating decision maker makes resource allocation decisions based on route profitability, which considers aircraft type and route economics. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group manages the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the "airline business".

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of business segments of aviation repair services, aviation training services, ground services, air catering and other miscellaneous services. These other operating segments are combined and reported as "all other segments". Inter-segment sales are based on prices set on an arm's length basis.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under PRC Accounting Standards for Business Enterprises ("PRC GAAP"). As such, the amount of each material reconciling item from the Group's reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies are set out in Note 3(d).

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

	Airline business		All other segments		Eliminations		Unallocated*		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Revenue from external customers	55,708	56,150	335	277	–	–	–	–	56,043	56,427
Inter-segment sales	–	4	674	506	(674)	(510)	–	–	–	–
Reportable segment revenue	55,708	56,154	1,009	783	(674)	(510)	–	–	56,043	56,427
Reportable segment profit/(loss) before taxation	27	(5,031)	56	(68)	–	–	374	351	457	(4,748)
Reportable segment assets	91,322	79,841	1,776	1,705	(159)	(131)	1,797	1,588	94,736	83,003
Addition to non-current segment assets during the year	17,558	12,801	66	47	–	–	13	29	17,637	12,877
Reportable segment liabilities	80,435	72,519	1,202	1,167	(159)	(131)	–	–	81,478	73,555
Other segment information										
Interest income	65	99	3	4	–	–	–	–	68	103
Interest expenses	1,446	1,923	51	64	–	–	–	–	1,497	1,987
Depreciation and amortisation for the year	5,954	5,724	85	94	–	–	–	–	6,039	5,818
Impairment losses (including impact on PP&E, allowance for doubtful debts and provision for inventories)	57	2,073	–	–	–	–	–	–	57	2,073

* Unallocated assets primarily include investments in associates and jointly controlled entities, available-for-sale securities and other investments. Unallocated results primarily include the share of results of associates and jointly controlled entities and gain on sale of available-for-sale securities.

(c) **Geographic information**

	2009	2008
	<i>RMB million</i>	<i>RMB million</i>
Domestic	47,645	45,972
Hong Kong, Macau and Taiwan	1,067	1,051
International *	7,331	9,404
	56,043	56,427

* Asian market accounted for approximately 74% (2008: 72%) of the Group's total international traffic revenue for the year ended 31 December 2009. The remaining portion was mainly derived from the Group's flights to/from European, North American and Australian regions.

The major revenue earning assets of the Group are its aircraft fleet which is registered in the PRC and is employed across its worldwide route network. The chief operating decision maker considers that there is no suitable basis for allocating such assets and related liabilities to geographical locations. Accordingly, geographical segment assets and liabilities are not disclosed.

(d) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Revenue		
Reportable segment revenue	56,717	56,937
Elimination of intersegment revenues	(674)	(510)
Reclassification of expired sales in advance of carriage	350	276
Reclassification of business tax	(1,591)	(1,415)
Consolidated revenue	54,802	55,288
Profit		
Reportable segment profit/(loss) before taxation	83	(5,099)
Unallocated amounts	374	351
Losses on lump sum housing benefits	(26)	(26)
Revaluation of land use rights	4	4
Adjustments arising from business combinations under common control	(7)	(7)
Capitalisation of exchange difference of specific loans	3	51
Government grants	1	2
Consolidated profit before taxation	432	(4,724)
Assets		
Reportable segment assets	93,098	81,546
Elimination of intersegment balances	(159)	(131)
Other unallocated amounts	1,797	1,588
Losses on lump sum housing benefits	66	92
Revaluation of land use rights	(142)	(146)
Adjustments arising from business combinations under common control	1	8
Capitalisation of exchange difference of specific loans	111	108
Government grants	(39)	(40)
Effect of the above adjustments on taxation	17	17
Consolidated total assets	94,750	83,042
Liabilities		
Reportable segment liabilities	81,637	73,686
Elimination of intersegment balances	(159)	(131)
Effect of the above adjustments on taxation	10	8
Consolidated total liabilities	81,488	73,563

4 Flight operations expenses

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Jet fuel costs	16,390	23,086
Operating lease charges		
– Aircraft and flight equipment	4,740	4,166
– Land and buildings	383	361
Air catering expenses	1,392	1,363
Aircraft insurance	188	174
Flight personnel payroll and welfare	2,622	2,490
Training expenses	556	577
Civil Aviation Administration of China (“CAAC”) Infrastructure Development Fund contributions	1,418	1,289
Others	1,607	1,476
	29,296	34,982

5 Impairment on property, plant and equipment

During the year, in view of the age of the Group’s fleet of ATR72 aircraft, the Group determined to dispose of these aircraft and commenced its process of seeking buyers for these aircraft. As a result, the Group assessed the recoverable amounts of these aircraft and related fleet assets. The carrying amount of the related fleet assets was written down by RMB26 million. The estimates of recoverable amounts were based on the assets’ fair value less costs to sell, determined by reference to the recent observable market prices for the aircraft and related fleet assets.

In 2008, in view of the age and operating efficiency of the Group’s fleet of Boeing 777-200A aircraft, Airbus 300 aircraft and McDonnell Douglas 90 aircraft, the Group determined to dispose and commenced its process of seeking buyers for these aircraft. As a result, the Group assessed the recoverable amounts of these aircraft and related fleet assets. The carrying amount of the aircraft and related fleet assets was written down by RMB1,590 million. The estimates of recoverable amounts were based on the aircraft’s fair value less costs to sell, determined by reference to observable market prices for the respective model of aircraft. In addition, in 2008, there had been a decrease in demand of cargo transportation services as a result of the economic conditions, and that the operating efficiency of the Group’s cargo freighters Boeing 747 was not satisfactory due to lack of economy of scale for the existing small fleet of cargo freighters. The Group assessed the recoverable amounts of its cargo freighters and related fleet assets, the carrying amount of the cargo freighters was written down by RMB291 million. The estimates of recoverable amounts were based on the aircraft’s fair value less costs to sell, determined by reference to the observable market prices for the cargo freighters.

6 Other net income

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Refund of CAAC infrastructure development fund	1,328	–
Government subsidies	541	901
Gain on sale of available-for-sale equity securities	78	–
Gain/(loss) on sale of property, plant and equipment, net	31	(59)
Others	11	(9)
	1,989	833

Pursuant to the “Notice of refund of CAAC infrastructure development fund” jointly issued by CAAC and the Ministry of Finance of the PRC in 2009, RMB1,328 million of CAAC infrastructure development fund paid for the period from 1 July 2008 to 30 June 2009 was refunded during the year.

7 Interest expense

	2009 RMB million	2008 RMB million
Interest on bank and other loans wholly repayable within five years	1,333	1,934
Interest on other loans	120	30
Finance charges on obligations under finance leases	471	678
Other interest expense	14	19
Less: borrowing costs capitalised	(441)	(674)
	<u>1,497</u>	<u>1,987</u>

8 Income tax (credit)/expense

	2009 RMB million	2008 RMB million
PRC income tax		
Provision for the year	90	25
Over-provision in prior year	—	(6)
	<u>90</u>	<u>19</u>
Deferred tax		
Origination and reversal of temporary differences	327	232
Utilisation of unused tax losses and deductible temporary differences not recognised in prior year (<i>Note (ii)</i>)	(512)	—
Effect on deferred tax balances resulting from a change in tax rate (<i>Note (iii)</i>)	—	(189)
	<u>(185)</u>	<u>43</u>
Income tax (credit)/expense	<u>(95)</u>	<u>62</u>

- (i) The Corporate Income Tax Law of the PRC (“new tax law”) took effect on 1 January 2008 and the statutory income tax rate adopted by the Company and its subsidiaries has been changed from 33% to 25% with effect from 1 January 2008. Pursuant to the new tax law, the income tax rates of entities that previously enjoyed preferential tax rates of 15% and 18% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards respectively.

The headquarters of the Company and its branches are taxed at rates ranging from 20% to 25% (2008: 18% to 25%). The subsidiaries of the Group are taxed at rates ranging from 15% to 30% (2008: 15% to 30%).

In respect of the Group’s overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for both the current and prior years.

- (ii) The Company increased its retained earnings under PRC GAAP as a result of changes in accounting policies in 2003 and 2007. As at 31 December 2008, the Company recognised deferred tax liabilities of RMB498 million and an income tax payable of RMB112 million in respect of the increase in retained earnings of RMB3,320 million in 2003 and RMB627 million in 2007, respectively in the financial statements prepared under IFRSs. In 2009, the Company agreed with the local tax authority that the above deferred tax liabilities and income tax payable would be settled from 2009 to 2011.

- (iii) In 2008, the tax authorities issued certain regulations governing the administration of income tax computation which involving headquarters and branches. Accordingly, deferred tax assets and liabilities were remeasured for changes in tax rates resulted from such new regulations.

9 Dividend

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2009.

No dividend was paid in respect of the year ended 31 December 2008.

10 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended 31 December 2009 is based on the profit attributable to equity shareholders of the Company of RMB330 million (2008: loss of RMB4,823 million) and the weighted average of 7,084,842,000 shares in issue during the year (2008: 6,561,267,000 shares).

	2009 <i>million shares</i>	2008 <i>million shares</i>
Issued ordinary shares at 1 January	6,561	4,374
Effect of bonus share issue	–	2,187
Effect of issuance of A shares	263	–
Effect of issuance of H shares	261	–
Weighted average number of ordinary shares at 31 December	7,085	6,561

On 20 August 2009 and 21 August 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung, a wholly-owned subsidiary of CSAHC, respectively.

The amounts of diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares in existence for both the current and prior years.

11 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 allowance for doubtful debts, is set out below:

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Within 1 month	1,191	1,123
More than 1 month but less than 3 months	147	182
More than 3 months but less than 12 months	21	11
More than 12 months	–	1
	1,359	1,317

12 Trade and bills payables

The following is the ageing analysis of trade and bills payables:

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Within 1 month	1,873	809
More than 1 month but less than 3 months	1,545	302
More than 3 months but less than 6 months	1,566	239
More than 6 months but less than 1 year	8	3
	<u>4,992</u>	<u>1,353</u>

13 Non-adjusting post balance sheet events

- (a) On 8 March 2010, the board of the Company approved (i) the placement of not more than 1,766,780,000 new A shares to not more than 10 specific investors (subject to the maximum number as permitted by PRC laws and regulations at the time of the issuance) including CSAHC, at the same subscription price of not less than RMB5.66 per A share; and (ii) the placement of not more than 312,500,000 new H shares to Nan Lung, at the subscription price of not less than HK\$2.73 per H share.

On the same date, the Company entered into the A shares subscription agreement with CSAHC, pursuant to which CSAHC conditionally agreed to subscribe and the Company conditionally agreed to allot and issue new A shares of not more than 132,510,000 at the subscription price of not less than RMB5.66 per A share. In addition, the Company and Nan Lung entered into the H shares subscription agreement, pursuant to which Nan Lung conditionally agreed to subscribe and the Company conditionally agreed to allot and issue new H shares of not more than 312,500,000 at the subscription price of not less than HK\$2.73 per H share.

The above placements are subject to approval of shareholders of the Company and relevant regulatory authorities.

- (b) On 20 January 2010, the Company entered into an agreement with Airbus SNC to purchase 20 Airbus 320 series aircraft, which were scheduled for delivery from 2011 to 2013. According to the information provided by Airbus SNC, the catalogue price of an Airbus 320 aircraft is around US\$77 million. Such catalogue price includes price for airframe and engines.
- (c) In accordance with a Transfer Agreement dated 28 September 2009 and a Supplemental Transfer Agreement dated 29 December 2009 entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU Maintenance Zhuhai Co., Ltd., a jointly controlled entity of the Company. As at 31 December 2009, the sale was approved by the State Owned Assets Supervision and Administration Commission of the PRC and shareholders of Company and was pending approval by the Ministry of Commerce of the PRC. The sales was subsequently approved by the Ministry of Commerce of the PRC in January 2010, and the Company received the acquisition consideration from CSAHC in full in February 2010.

14 Comparative figures

As a result of the application of IAS1 (revised 2007), Presentation of financial statements, and IFRS 8, Operating segments and the change in accounting policy for property, plant and equipment, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 2.

B. Prepared in accordance with the PRC GAAP**Consolidated Income Statement for the year ended 31 December 2009**

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Operating income	56,043	56,427
Less: Operating costs	49,197	54,248
Business taxes and surcharges	1,591	1,386
Selling and distribution expenses	4,256	3,576
General and administrative expenses	1,814	1,873
Financial expenses/(income), net	1,396	(594)
Impairment losses on assets	57	2,073
Add: Gain/(loss) from changes in fair value	72	(113)
Investment income	347	340
Operating loss	(1,849)	(5,908)
Add: Non-operating income	2,336	1,257
Less: Non-operating expenses	30	97
Profit/(loss) before income tax	457	(4,748)
Less: Income tax (credit)/expenses	(97)	48
Net profit/(loss) for the year	554	(4,796)
Add: Other comprehensive income for the year	30	(192)
Total comprehensive income for the year	584	(4,988)
Profit/(loss) attributable to		
Equity shareholders of the Company	358	(4,829)
Minority interests	196	33
Net profit/(loss) for the year	554	(4,796)
Total comprehensive income attributable to		
Equity shareholders of the Company	377	(4,994)
Minority interests	207	6
Total comprehensive income for the year	584	(4,988)

Consolidated Balance Sheet at 31 December 2009

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Assets		
Current assets		
Cash at bank and on hand	4,343	4,700
Accounts receivable	1,366	1,319
Prepayments	711	620
Other receivables	1,452	1,380
Inventories	1,256	1,229
Total current assets	9,128	9,248
Non-current assets		
Available-for-sale financial assets	93	114
Long-term equity investments	1,704	1,474
Investment properties	461	640
Fixed assets	63,193	52,575
Construction in progress	17,982	17,213
Intangible assets	754	785
Lease deposits	564	563
Long-term deferred expenses	95	93
Deferred tax assets	462	148
Other non-current assets	300	150
Total non-current assets	85,608	73,755
Total assets	94,736	83,003
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	11,012	18,232
Short-term financing bills	–	2,000
Financial liabilities held for trading	44	116
Bills payable	3,207	148
Accounts payable	8,245	7,806
Sales in advance of carriage	2,196	2,244
Employee benefits payable	1,602	1,520
Taxes payable	532	603
Interest payable	146	339
Other payables	2,927	2,544
Non-current liabilities due within one year	7,871	5,727
Total current liabilities	37,782	41,279

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Non-current liabilities		
Long-term loans	27,875	17,429
Obligations under finance leases	11,887	11,157
Provision for major overhauls	953	945
Deferred revenue	1,990	1,815
Provision for early retirement benefits	148	179
Deferred tax liabilities	843	751
Total non-current liabilities	43,696	32,276
Total liabilities	81,478	73,555
Shareholders' equity		
Share capital	8,003	6,561
Capital reserve	5,406	3,848
Surplus reserve	603	603
Accumulated losses	(3,653)	(4,011)
Total equity attributable to equity shareholders of the Company	10,359	7,001
Minority interests	2,899	2,447
Total equity	13,258	9,448
Total liabilities and shareholders' equity	94,736	83,003

Notes:

- (1) The financial information set out above is derived from audited financial statements for the year ended 31 December 2009 prepared in accordance with PRC GAAP which is available on the website of Shanghai Stock Exchange at <http://www.sse.com.cn> and the Company's website at <http://www.csair.com>.

C. Effects of significant differences between IFRSs and PRC GAAP

- (1) Effects of significant differences between PRC GAAP and IFRSs on net profit/(loss) are analysed as follows:

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Net profit/(loss) attributable to equity shareholders of the Company in the financial information prepared under PRC GAAP	358	(4,829)
Adjustments:		
Losses on lump sum housing benefits	(26)	(26)
Revaluation of land use rights	4	4
Adjustments arising from business combinations under common control	(7)	(7)
Capitalisation of exchange difference of specific loans	3	51
Government grants	1	2
Effect of the above adjustments on taxation	(2)	(14)
Effect of the above adjustments on minority interests	(1)	(4)
Net profit/(loss) attributable to equity shareholders of the Company in the financial information prepared under IFRSs	330	(4,823)

- (2) Effects of significant differences between PRC GAAP and IFRSs on total equity are analysed as follows:

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Total equity attributable to equity shareholders of the Company in the financial information prepared under PRC GAAP	10,359	7,001
Adjustments:		
Losses on lump sum housing benefits	66	92
Revaluation of land use rights	(142)	(146)
Adjustments arising from business combinations under common control	1	8
Capitalisation of exchange difference of specific loans	111	108
Government grants	(39)	(40)
Effect of the above adjustments on taxation	7	9
Effect of the above adjustments on minority interests	(12)	(11)
Total equity attributable to equity shareholders of the Company in the financial information prepared under IFRSs	10,351	7,021

OPERATING DATA SUMMARY

Part of the financial information presented in this section is derived from the Company's audited financial statements that have been prepared in accordance with IFRSs.

The following table sets forth certain financial information and operating data by geographic regions:

	For the year ended 31 December 2009	2008	2009 vs 2008 Increase/ (decrease) %
Traffic			
Revenue passenger kilometres (RPK) (<i>million</i>)			
– Domestic	80,697	70,619	14.3
– Hong Kong, Macau and Taiwan	1,337	1,139	17.4
– International	10,968	11,426	(4.0)
Total	93,002	83,184	11.8
Revenue tonne kilometres (RTK) (<i>million</i>)			
– Domestic	8,342	7,392	12.9
– Hong Kong, Macau and Taiwan	126	110	14.5
– International	1,599	1,698	(5.8)
Total	10,067	9,200	9.4
Passengers carried (<i>thousand</i>)			
– Domestic	61,130	53,063	15.2
– Hong Kong, Macau and Taiwan	1,276	1,220	4.6
– International	3,875	3,954	(2.0)
Total	66,281	58,237	13.8
Cargo and mail carried (<i>thousand tonnes</i>)			
– Domestic	750	713	5.2
– Hong Kong, Macau and Taiwan	9	11	(18.2)
– International	103	111	(7.2)
Total	862	835	3.2
Capacity			
Available seat kilometres (ASK) (<i>million</i>)			
– Domestic	105,379	93,384	12.8
– Hong Kong, Macau and Taiwan	1,916	1,790	7.0
– International	16,146	17,593	(8.2)
Total	123,441	112,767	9.5

	For the year ended 31 December 2009	2008	2009 vs 2008 Increase/ (decrease) %
Available tonne kilometres (ATK) (<i>million</i>)			
– Domestic	12,425	10,985	13.1
– Hong Kong, Macau and Taiwan	219	200	9.5
– International	2,802	3,091	(9.3)
Total	15,446	14,276	8.2
Load factor			
Passenger load factor (RPK/ASK) (%)			
– Domestic	76.6	75.6	1.3
– Hong Kong, Macau and Taiwan	69.8	63.6	9.7
– International	67.9	64.9	4.6
Overall	75.3	73.8	2.0
Overall load factor (RTK/ATK) (%)			
– Domestic	67.1	67.3	(0.3)
– Hong Kong, Macau and Taiwan	57.7	55.0	4.9
– International	57.1	54.9	4.0
Overall	65.2	64.4	1.2
Yield			
Yield per RPK (<i>RMB</i>)			
– Domestic	0.53	0.59	(10.2)
– Hong Kong, Macau and Taiwan	0.75	0.84	(10.7)
– International	0.55	0.67	(17.9)
Overall	0.54	0.61	(11.5)
Yield per RTK (<i>RMB</i>)			
– Domestic	5.36	5.90	(9.2)
– Hong Kong, Macau and Taiwan	8.30	9.23	(10.1)
– International	4.52	5.47	(17.4)
Overall	5.26	5.86	(10.2)
Fleet			
Total number of aircraft at year end			
– Boeing	194	179	8.4
– Airbus	157	133	18.0
– McDonnell Douglas	16	25	(36.0)
– Others	11	11	0.0
Total	378	348	8.6

	For the year ended 31 December 2009	2008	2009 vs 2008 Increase/ (decrease) %
Overall utilisation rate (<i>hours per day</i>)			
– Boeing	9.52	9.38	1.5
– Airbus	9.37	9.01	4.0
– McDonnell Douglas	8.99	7.41	21.3
Overall	<u>9.37</u>	<u>9.05</u>	3.5
Cost			
– Operating cost per ATK (<i>RMB</i>)	<u>3.58</u>	<u>4.33</u>	(17.3)

MANAGEMENT DISCUSSION AND ANALYSIS

2009 was the most difficult year for China's economic development in the new century. The global financial crisis spread like wildfire while the economy of the whole world recovered slowly with the international civil aviation market in continued recession. In early 2009, there existed a number of unfavorable conditions, such as the slowdown of China's economic growth, weak consumption demand, increasing market competition, outbreak of Influenza A and other unexpected events, which put the domestic aviation market in an awkward situation. However, in the second half year of 2009, with the implementation of the proactive fiscal policy and moderately easing monetary policy as well as the rebound of national economy, the domestic civil aviation market gradually revived from the worst position.

During the reporting period, the weak demand for international aviation service remained. Though the domestic market recovered rapidly, the growth of demand was generally slower than that of traffic capacity that led to keen market competition. Coupled with impacts of unexpected problems, it was hard to increase our earnings. Given the adversity, besides its adjustments to the structures of traffic capacity and routes and flights, the Group strived to optimize the route network, develop the domestic and overseas markets, strictly control costs and pursue extensive external cooperation. Such measures enabled the fast growth of all operational performance indices on an ongoing basis.

The Company put forth the service concept of "care about customers' feeling and emphasis on every service opportunity" and staged the important "Year of Branded Services Improvement Campaign" during the reporting period. It proactively explored the control model of service system, and strengthened the standardization of services. Also, the Company continued to optimize the whole process and each step of services so as to serve customers seamlessly and enhance the functions and efficiency of the Company. The relation between service and safety, operation and marketing was coordinated well with improvement in coping with the severe flight delay. By using the advanced information technology, the Company tried hard to build "four service brands" (in-flight services, ground services, high-end services and transit services) and achieved "five improvements" (improvements in service goal, service consciousness, service standard, service management as well as service and product design). As such, the Company's brand value and market influence were then enhanced.

During the reporting period, the Company deepened its strategic transformation and further determined the direction and implementation measures of the transformation. The planning of transformation was further realized after the commencement of the actual works like "transit in Australia".

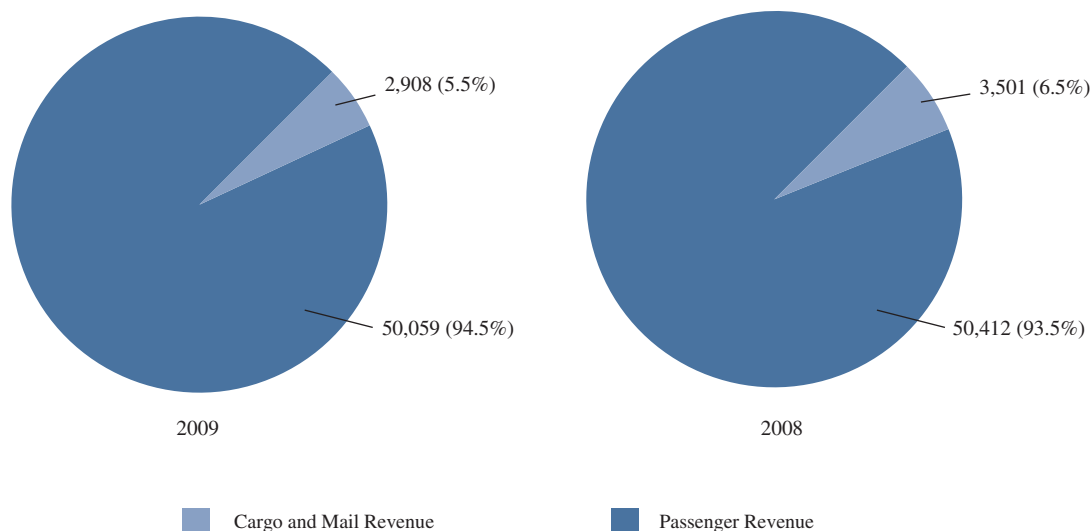
FINANCIAL PERFORMANCE

The profit attributable to equity shareholders of the Company of RMB330 million was recorded in 2009 as compared to the loss attributable to equity shareholders of the Company of RMB4,823 million in 2008. Due to the decrease of fuel cost, the Group's operating costs decreased sharply. The Group's operating revenue decreased by RMB486 million or 0.9% from RMB55,288 million in 2008 to RMB54,802 million in 2009 resulting from the decrease in fuel surcharge income. Passenger load factor increased by 1.5 percentage point, from 73.8% in 2008 to 75.3% in 2009. Passenger yield (in passenger revenue per RPK) decreased by RMB0.07 or 11.5% from RMB0.61 in 2008 to RMB0.54 in 2009. Average yield (in traffic revenue per RTK) decreased by 10.2% from RMB5.86 in 2008 to RMB5.26 in 2009. Operating expenses decreased by RMB6,416 million or 10.4% from RMB61,767 million in 2008 to RMB55,351 million in 2009. As a result of the decrease in operating expenses, operating profit of RMB1,440 million was recorded in 2009 as compared to operating loss of RMB5,646 million in 2008.

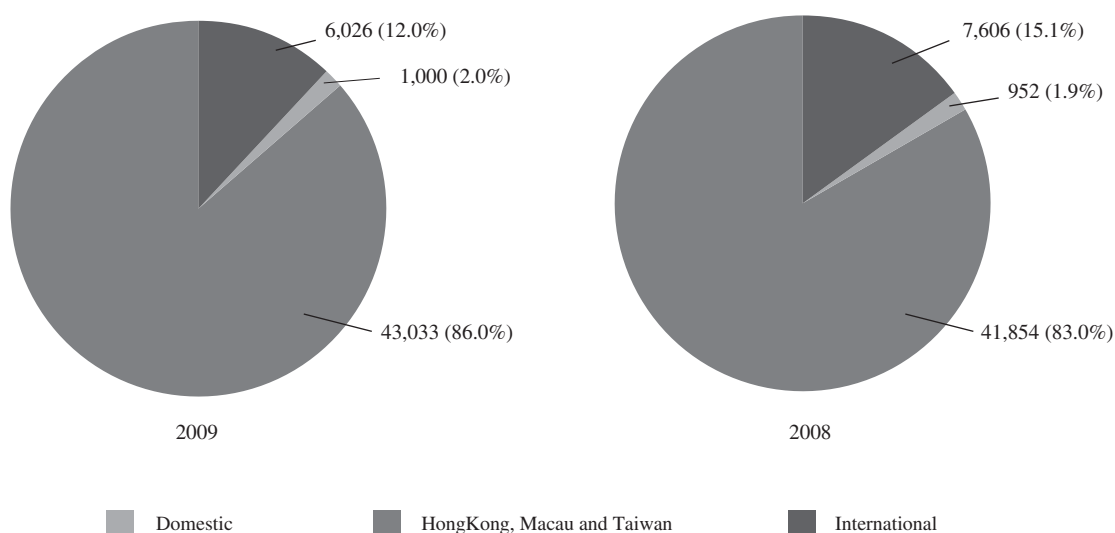
OPERATING REVENUE

	2009		2008		Changes in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	52,967	96.7%	53,913	97.5%	(1.8%)
Including: Passenger revenue	50,059		50,412		(0.7%)
– Domestic	43,033		41,854		2.8%
– Hong Kong, Macau and Taiwan	1,000		952		5.0%
– International	6,026		7,606		(20.8%)
Cargo and mail revenue	2,908		3,501		(16.9%)
Other operating revenue	1,835	3.3%	1,375	2.5%	33.5%
Mainly including: Commission income	342		317		7.9%
Ground service income	320		250		28.0%
Expired sales in advance of carriage	350		276		26.8%
Total operating revenue	54,802	100.0%	55,288	100.0%	(0.9%)
Less: fuel surcharge income	(1,986)		(8,197)		
Total operating revenue excluding fuel surcharge	52,816		47,091		

Traffic revenue composition (RMB million)



Passenger revenue composition (RMB million)



Substantially all of the Group's operating revenue is attributable to airline and airline related operations. Traffic revenue accounted for 96.7% and 97.5% of total operating revenue in 2009 and 2008 respectively. Passenger revenue and cargo and mail revenue accounted for 94.5% and 5.5% respectively of the total traffic revenue in 2009. The other operating revenue is mainly derived from commission income, income from general aviation operations fees charged for ground services rendered to other Chinese airlines and income from expired sales in advance of carriage.

The decrease in operating revenue was primarily due to a 0.7% decrease in passenger revenue from RMB50,412 million in 2008 to RMB50,059 million in 2009. The total number of passengers carried increased by 13.8% to 66.28 million passengers in 2009. RPKs increased by 11.8% from 83,184 million in 2008 to 93,002 million in 2009, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK decreased from RMB0.61 in 2008 to RMB0.54 in 2009. Passenger revenue and passenger yield per RPK decreased mainly due to the decrease in fuel surcharge income.

Fuel surcharge income, which accounted for 3.62% of total operating revenue, decreased by 75.8% or RMB6,211 million, from RMB8,197 million in 2008 to RMB1,986 million in 2009. On 14 January 2009, the National Development and Reform Commission (NDRC) and the CAAC jointly announced the suspension of the collection of passenger fuel surcharge since 15 January 2009. On 11 November 2009, the NDRC and the CAAC resumed the collection of fuel surcharge income and issued a new pricing mechanism, which was effective on 14 November 2009. Under the new pricing mechanism, domestic airline companies could adjust the fuel surcharge level within a prescribed range set by the pricing mechanism without prior approval of the relevant authorities. In addition, the Company reduced the fuel surcharge level of international routes in view of the decrease in fuel prices.

Domestic passenger revenue, which accounted for 86.0% of the total passenger revenue in 2009, increased by 2.8% from RMB41,854 million in 2008 to RMB43,033 million in 2009. Domestic passenger traffic in RPKs increased by 14.3%, while passenger capacity in ASKs increased by 12.8%, resulting in an increase in passenger load factor by 1.0 percentage point from 75.6% in 2008 to 76.6% in 2009. Domestic passenger yield per RPK decreased from RMB0.59 in 2008 to RMB0.53 in 2009.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 2.0% of total passenger revenue, increased by 5.0% from RMB952 million in 2008 to RMB1,000 million in 2009. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs increased by 17.4%, while passenger capacity in ASKs increased by 7.0%, resulting in an increase in passenger load factor by 6.2 percentage points from 63.6% in 2008 to 69.8% in 2009. Passenger yield per RPK decreased from RMB0.84 in 2008 to RMB0.75 in 2009, mainly resulted from the decrease of fuel surcharge income and stronger competition in the region during the year.

International passenger revenue, which accounted for 12.0% of total passenger revenue, decreased by 20.8% from RMB7,606 million in 2008 to RMB6,026 million in 2009. For international flights, passenger traffic in RPKs decreased by 4.0%, while passenger capacity in ASKs decreased by 8.2%, resulting in a 3.0 percentage point increase in passenger load factor from 64.9% in 2008 to 67.9% in 2009. Passenger yield per RPK decreased by 17.9% from RMB0.67 in 2008 to RMB0.55 in 2009, mainly due to stronger competition in international routes and the decrease in fuel surcharge income during the year.

Cargo and mail revenue, which accounted for 5.5% of the Group's total traffic revenue and 5.3% of total operating revenue, decreased by 16.9% from RMB3,501 million in 2008 to RMB2,908 million in 2009. The decrease was attributable to reduced cargo traffic demand under global financial crisis.

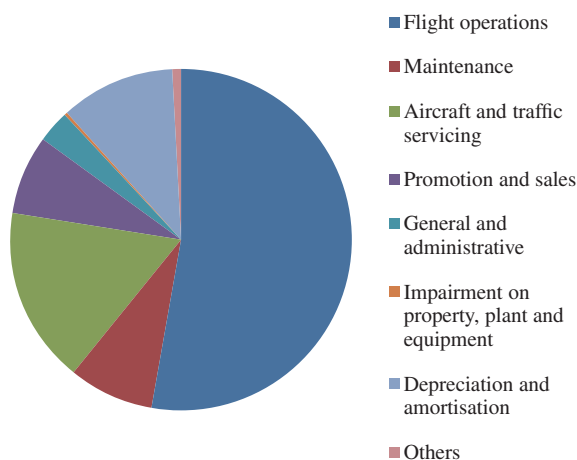
Other operating revenue increased by 33.5% from RMB1,375 million in 2008 to RMB1,835 million in 2009. The increase was primarily due to the general growth in income from various auxiliary operations.

OPERATING EXPENSES

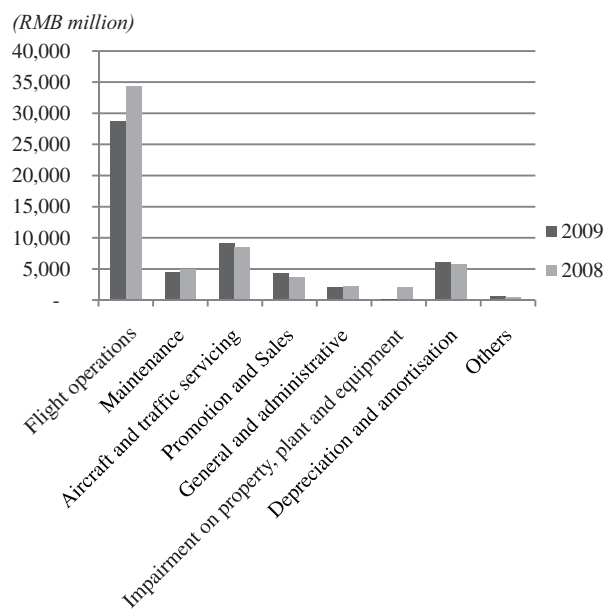
Total operating expenses in 2009 amounted to RMB55,351 million, representing a decrease of 10.4% or RMB6,416 million over 2008, primarily due to the total effect of decreases in jet fuel costs and impairment on property, plant and equipment. Total operating expenses as a percentage of total operating revenue decreased from 111.7% in 2008 to 101.0% in 2009.

Operating expenses	2009		2008	
	<i>RMB million</i>	<i>Percentage</i>	<i>RMB million</i>	<i>Percentage</i>
Flight operations	29,296	52.9%	34,982	56.6%
Mainly including: Jet fuel costs	16,390		23,086	
Operating lease charges	5,123		4,527	
Flight personnel payroll and welfare	2,622		2,490	
Maintenance	4,446	8.0%	4,890	7.9%
Aircraft and traffic servicing	9,169	16.6%	8,476	13.7%
Promotion and sales	4,170	7.5%	3,491	5.7%
General and administrative	1,844	3.3%	2,041	3.3%
Impairment on property, plant and equipment	26	0.1%	1,884	3.1%
Depreciation and amortisation	5,971	10.8%	5,746	9.3%
Others	429	0.8%	257	0.4%
Total operating expenses	55,351	100%	61,767	100%

Composition of operating expenses in 2009



Comparison of operating expenses



Flight operations expenses, which accounted for 52.9% of total operating expenses, decreased by 16.3% from RMB34,982 million in 2008 to 29,296 million in 2009, primarily as a result of decrease in jet fuel costs. Jet fuel costs, which accounted for 55.9% of flight operations expenses, decreased by 29.0% from RMB23,086 million in 2008 to 16,390 million in 2009 mainly as a result of decrease in average fuel prices by 35.3%.

Maintenance expenses, which accounted for 8.0% of total operating expenses, decreased by 9.1% from RMB4,890 million in 2008 to RMB4,446 million in 2009. The decrease was mainly due to the decrease in number of engines repaired during the year.

Aircraft and traffic servicing expenses, which accounted for 16.6% of total operating expenses, increased by 8.2% from RMB8,476 million in 2008 to RMB9,169 million in 2009. The increase was primarily due to a 10.4% rise in landing and navigation fees from RMB6,135 million in 2008 to RMB6,772 million in 2009, due to the increase in number of flights.

Promotional and sales expenses, which accounted for 7.5% of total operating expenses, increased by 19.5% from RMB3,491 million in 2008 to RMB4,170 million in 2009.

General and administrative expenses, which accounted for 3.3% of the total operating expenses, decreased by 9.7% from RMB2,041 million in 2008 to RMB1,844 million in 2009.

Impairment on property, plant and equipment decreased by RMB1,858 million from RMB1,884 million in 2008 to RMB26 million in 2009. Please see note 5 to the financial information for more details.

Depreciation and amortisation, which accounted for 10.8% of total operating expenses, increased by 3.9% from RMB5,746 million in 2008 to RMB5,971 million in 2009, mainly due to the additional depreciation charges on aircraft delivered in 2009.

OPERATING PROFIT/(LOSS)

Operating profit of RMB1,440 million was recorded in 2009 as compared to operating loss of RMB5,646 million in 2008. The increase in profit was mainly due to the net effect of decrease in operating revenue by RMB486 million or 0.9% in 2009, decrease in operating expenses by 6,416 million or 10.4% and the receipt of CAAC Infrastructure Development Fund contributions of RMB1,328 million in 2009.

OTHER (EXPENSES)/INCOME

Interest expense decreased by 24.7% from RMB1,987 million in 2008 to RMB1,497 million in 2009, mainly due to the decrease in average effective interest rate of bank and other loans and obligations under finance leases.

Net exchange gain decreased by RMB2,499 million, from RMB2,592 million in 2008 to RMB93 million in 2009 because the exchange rate of Renminbi against U.S. dollar was relatively stable in 2009 while Renminbi appreciated significantly against U.S. dollar in 2008.

TAXATION

Income tax benefit of RMB95 million was recorded in 2009 as compared to an income tax expense of RMB62 million in 2008.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the Group's current liabilities exceeded its current assets by RMB28,441 million. For the year ended 31 December 2009, the Group recorded a net cash inflow from operating activities of RMB8,959 million, a net cash outflow from investing activities of RMB14,478 million and a net cash inflow from financing activities of RMB5,213 million and a decrease in cash and cash equivalents of RMB306 million.

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Net cash generated from operating activities	8,959	1,155
Net cash used in investing activities	(14,478)	(7,790)
Net cash from financing activities	5,213	7,460
Net (decrease)/increase in cash and cash equivalents	(306)	825

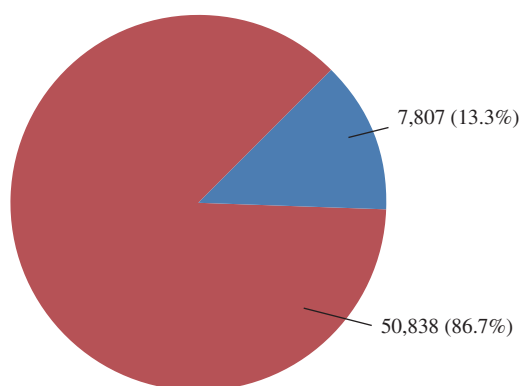
In 2010 and thereafter, the liquidity of the Group primarily depends on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures. As at 31 December 2009, the Group had banking facilities with several PRC commercial banks for providing loan finance up to approximately RMB128,175 million (2008: RMB125,265 million), of which approximately RMB50,455 million (2008: RMB47,125 million) was utilised. The directors of the Company believe that sufficient financing will be available to the Group.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2010. 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 board 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.

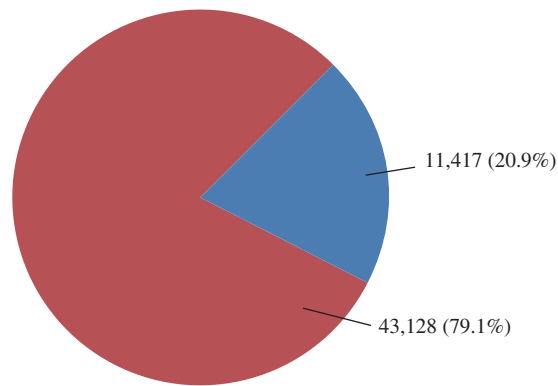
The analyses of the Group's borrowings are as follows:

Composition of borrowings

	2009 <i>RMB million</i>	2008 <i>RMB million</i>	Change
Total borrowings	58,645	54,545	7.5%
Fixed rate borrowings	7,807	11,417	(31.6%)
Floating rate borrowings	50,838	43,128	17.9%



■ Floating rate borrowings
(RMB million)



■ Fixed rate borrowings
(RMB million)

Analysis of borrowings by currency

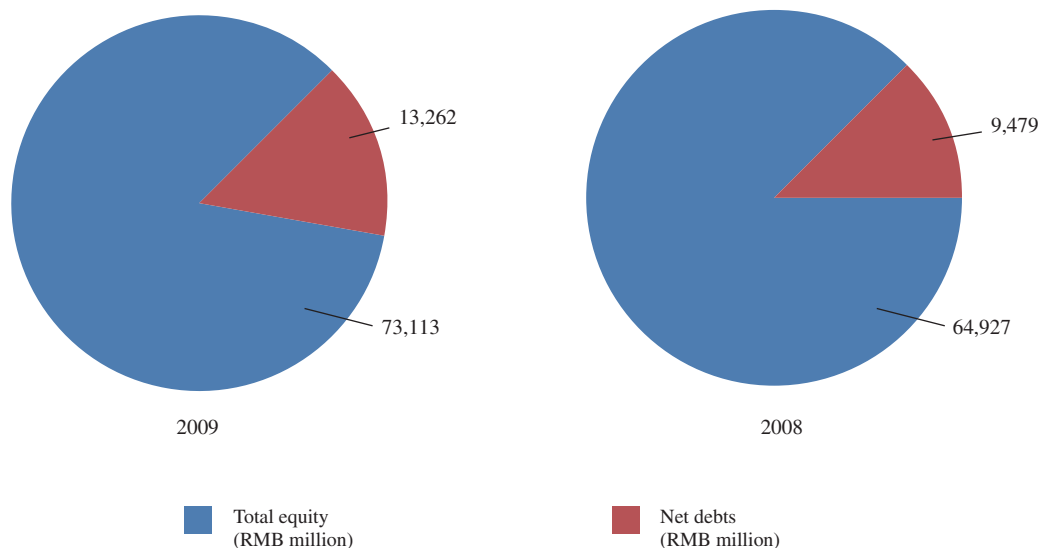
	2009 <i>RMB million</i>	2008 <i>RMB million</i>
USD	52,489	38,810
RMB	6,156	15,244
Others	—	491
Total	<u>58,645</u>	<u>54,545</u>

Maturity analysis of borrowings

	2009 <i>RMB million</i>	2008 <i>RMB million</i>
Within 1 year	18,883	25,959
After 1 year but within 2 years	9,718	7,319
After 2 years but within 3 years	10,859	9,818
After 3 years but within 4 years	3,046	1,895
After 4 years	16,139	9,554
Total borrowings	<u>58,645</u>	<u>54,545</u>

The Group's capital structure at the end of the year is as follows:

	2009	2008	Change
Net debts (RMB million)	73,113	64,927	12.6%
Total equity (RMB million)	13,262	9,479	39.9%
Ratio of net debt to total equity	551%	685%	(19.6%)



Net debts (aggregate of bank and other loans, obligations under finance leases, trade and bills payables, sales in advance of carriage, amounts due to related companies, accrued expenses and other liabilities less cash and cash equivalents) increased by 12.6% to RMB73,113 million at 31 December 2009.

As at 31 December 2009, total equity attributable to equity shareholders of the Company amounted to RMB10,351 million, representing an increase of RMB3,330 million from RMB7,021 million at 31 December 2008. Total equity at 31 December 2009 amounted to RMB13,262 million (2008: RMB9,479 million).

Ratio of net debt to total equity of the Group at 31 December 2009 was 551%, as compared to 685% at 31 December 2008.

FINANCIAL RISK MANAGEMENT POLICY

Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange or at a swap centre.

The Group has significant exposure to foreign currency risk as substantially all of the Group's obligations under finance lease and bank and other loans are denominated in foreign currencies, principally in US dollars. 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 banks.

As at 31 December 2009, the Group had two outstanding forward option contracts of notional amount ranging from USD34 million to USD68 million. The contracts are to buy US Dollars by selling Japanese Yen at certain specified rates on monthly settlement dates until the maturity of the contracts in 2011. At 31 December 2009, the fair value of these currency forward option contracts was liabilities of approximately RMB44 million.

Jet fuel price risk

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

MAJOR CHARGE ON ASSETS

As at 31 December 2009, certain aircraft and advance payments for aircraft of the Group with an aggregate carrying value of approximately RMB41,985 million (2008: RMB35,706 million) were mortgaged under certain loan and lease agreements.

COMMITMENTS AND CONTINGENCIES

Commitments

As at 31 December 2009, the Group had capital commitments of approximately RMB67,704 million (2008: RMB78,481 million). Of such amounts, RMB65,843 million related to the acquisition of aircraft and related flight equipment and RMB1,861 million for other projects.

As at 31 December 2009, capital commitments of a jointly controlled entity shared by the Group amounted to RMB42 million (2008: RMB27 million).

Contingent Liabilities

- (a) The Group leased certain properties and buildings from CSAHC which located in Guangzhou, Wuhan and Haikou, etc. However, such properties and buildings lack adequate documentation evidencing CSAHC's rights thereto.

Pursuant to the indemnification agreement dated 22 May 1997 between the Group and CSAHC, CSAHC has agreed to indemnify the Group against any loss or damage arising from any challenge of the Group's right to use the certain properties and buildings.

- (b) The Company entered into agreements with its pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB292,586,000 (2008: RMB90,858,000) to be granted to its pilot trainees to finance their respective flight training expenses. As at 31 December 2009, an aggregate of personal bank loans of RMB60 million (2008: RMB13 million), under these guarantees, were drawn down from the banks.

SHARE CAPITAL STRUCTURE

Change in Share Capital

In 2009, the Company has issued 721,150,000 A Shares and 721,150,000 H Shares to CSAHC and Nan Lung respectively, pursuant to the non-public issue of shares. There were 8,003,567,000 issued Shares after the completion of the non-public issue of shares. Save for the above, there was no change in the share capital of the Company.

Types of Shares	Number of Shares	Approximate percentage of total share capital (%)
1. A Shares with selling restrictions	4,021,150,000	50.24
2. H Shares	2,482,417,000	31.02
3. A Shares	1,500,000,000	18.74
Total issued Shares	<u>8,003,567,000</u>	<u>100.00</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares during the year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

None of the articles of association of the Company provides for any pre-emptive rights requiring the Company to offer new shares to existing shareholders in proportion to their existing shareholdings.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited financial statements of the Group for the year ended 31 December 2009.

THE MODEL CODE

Having made specific enquiries with all the Directors, the Directors have for the year ended 31 December 2009 complied with the Model Code (the “Model Code”) for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company has adopted a code of conduct which is no less stringent than the Model Code regarding securities transactions of the Directors.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Group has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2009.

2010 OUTLOOK

Turning to 2010, given that the international financial market is becoming stable steadily, the Company expects to see a normal growth of the global economy under the recovery. Driven by the proactive fiscal policy and moderately easing monetary policy, the domestic economy will also maintain an uptrend. Besides, the PRC government has put great efforts in economic restructuring, boosting the national income and stimulating the domestic consumption, which will make favorable conditions for the rapid and health development of the domestic aviation market. On top of its assurance about aviation safety, the Group will advance the strategic transformation, strive to improve the competitiveness and profitability, and enhance the service standard and brand image continuously. The financial risk of the Group will also be reduced through the optimization of asset and debt portfolio. The Group is confident of ongoing improvement in its operating performance.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2009 annual report of the Company, which contains consolidated financial statements for the year ended 31 December 2009, with an unqualified auditor's report, and all other information required under Appendix 16 of the Listing Rules will be despatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.csair.com) in due course.

By order of the Board
China Southern Airlines Company Limited
Xie Bing and Liu Wei
Joint Company Secretaries

Guangzhou, the People's Republic of China
12 April 2010

As at the date of this announcement, the directors of the Company include Si Xian Min, Li Wen Xin, Wang Quan Hua, Liu Bao Heng, Tan Wan Geng, Zhang Zi Fang, Xu Jie Bo and Chen Zhen You; and independent non-executive directors include Wang Zhi, Sui Guang Jun, Gong Hua Zhang and Lam Kwong Yu.