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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)**

**DISCLOSEABLE TRANSACTION**  
**REGARDING A DEEMED DISPOSAL OF**  
**EQUITY INTERESTS IN A SUBSIDIARY**

The Board hereby announces that on 20 December 2010, the Company, Xiamen Jianfa and Hebei Investment entered into the Agreement pursuant to which Hebei Investment agreed to inject a cash capital of RMB 1,460 million into Xiamen Airlines. After the Capital Injection, Hebei Investment will hold all together 15% equity interests in Xiamen Airlines, while the equity interests in Xiamen Airlines of the Company and Xiamen Jianfa will proportionally decrease from 60% to 51% and from 40% to 34%, respectively. Xiamen Airlines will remain a subsidiary of the Company subsequent to the Deemed Disposal.

The Capital Injection reduces the equity interests of the Company in Xiamen Airlines. This reduction of equity interests represents a deemed disposal of the Company. As the profit ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Deemed Disposal exceed 5% but are below 25%, the Deemed Disposal constitutes a discloseable transaction of the Company and is only subject to the reporting and announcement requirements under the Listing Rules.

**THE AGREEMENT**

**Date**

20 December 2010

**Parties**

- (i) Hebei Investment, a company incorporated in the PRC, as the new investor to Xiamen Airlines. The principal business activity of Hebei Investment is that of investment in aviation transportation, infrastructure, commercial logistics construction, property development and tourism. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Hebei Investment and its ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company, and is not a connected person of the Company.
- (ii) Xiamen Jianfa, a company incorporated in the PRC, is holding 40% equity interests of Xiamen Airlines as at the date of this announcement, a substantial holder of a non wholly-owned subsidiary of the Company. The principal business

activity of Xiamen Jianfa is that of domestic and foreign investments, property development and provision of computer applied services.

- (iii) The Company, its principal business activity is that of civil aviation, is holding 60% equity interests of Xiamen Airlines as at the date of this announcement.

### Details of capital injection

Pursuant to the Agreement, Hebei Investment will inject RMB 1,460 million to Xiamen Airlines as its registered capital (RMB 450 million) and its capital reserve (RMB 1,010 million). After the Capital Injection, the total registered capital of Xiamen Airlines will increase from RMB 1,200 million to RMB 3,000 million. The following table summarises the shareholding structure of Xiamen Airlines before and after the Capital Injection:

	Before Capital Injection		After Capital Injection	
	RMB (million)	% of equity interests	RMB (million)	% of equity interests
The Company	720	60%	1,530	51%
Xiamen Jianfa	480	40%	1,020	34%
Hebei Investment	-	-	450	15%
<b>Total</b>	<b>1,200</b>	<b>100%</b>	<b>3,000</b>	<b>100%</b>

The capital injection amount is determined based on the Valuation of the net asset values of Xiamen Airlines of RMB 8,292,457,200 as at 31 July 2010 prepared by Beijing Zhong Qi Hua Assets Valuation Co., Ltd. (北京中企華資產評估有限責任公司) (an independent qualified valuer in the PRC), which is fixed at RMB 8,300 million as agreed by the parties. The capital contribution by the Company and Xiamen Jianfa shall be by way of transfer of the capital reserve and the undistributed profits of Xiamen Airlines of RMB 1,350 million in proportion to their existing equity interests in Xiamen Airlines before the Capital Injection. The capital contribution by Hebei Investment of an aggregate of RMB 1,460 million shall be paid in cash within 60 days from the date when each party to the Agreement has completed its relevant approval procedures (*notice should be given to Xiamen Airlines by the parties when the approval procedures have been completed*).

As the Valuation was valued based on an income approach, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. As such, the Company will publish an announcement setting out, among other things, the bases and assumptions upon which the Valuation was made together with the report of the Company's auditors confirming its review of the accounting policies and the calculations under the Valuation within 15 business days from the date of this announcement in compliance with Rules 14.60A and 14.62 of the Listing Rules.

### FURTHER INFORMATION OF XIAMEN AIRLINES

Xiamen Airlines is a company incorporated in the PRC and its principal business activity is the operation of domestic airlines and cargo transportation business. The business operation period of Xiamen Airlines will be 30 years from the date of issue of the new business licence of Xiamen Airlines.

According to the Agreement, the profit of Xiamen Airlines available for distribution shall be distributed to the parties in proportion to their respective share of actual contribution to the registered capital. The board of directors of Xiamen Airlines shall comprise 11 directors, where the Company will be entitled to nominate six directors, Xiamen Jianfa will be entitled to nominate four directors and Hebei Investment will be entitled to nominate one director.

The following table contains certain financial information of Xiamen Airlines which is prepared in accordance with the PRC Accounting Standards:

	<b>As at 30 June 2010</b> (unaudited) <i>RMB million</i>	<b>As at 31 December 2009</b> (audited) <i>RMB million</i>
Total assets	157.15	135.19
Net assets	53.31	49.42
	<b>For the year ended 31 December</b>	
	<b>2009</b> (audited) <i>RMB million</i>	<b>2008</b> (audited) <i>RMB million</i>
Net profit before tax	510	325
Net profit after tax	391	276

## **REASONS FOR THE CAPITAL INJECTION**

Since its establishment, Xiamen Airlines has developed through internal resources and revenue generated from its operations. Hence, the growth in size has been relatively slow and Xiamen Airlines has been placed in a disadvantageous position in its competition with other rivals. In order to secure a favourable competitive position in Fujian and other regions, Xiamen Airlines plans to speed up the introduction of new aircrafts during the period of the 12th Five-year Plan. This will require immense capital expenditure and incur enormous liabilities as well as certain financial risks for Xiamen Airlines. Thus, it will pose a certain adverse impact on the profitability of Xiamen Airlines. In light of the above, Xiamen Airlines has an urgent need to replenish its capital through an increase in share capital and capital injection.

Upon completion of the Capital Injection, the proportion of the Company's equity interests in Xiamen Airlines will reduce from 60% to 51%. However, it will not have any material negative impact on the scope of consolidation in the financial statements as well as the operating results of the Company as the Company will continue to hold a majority stake in Xiamen Airlines. Hebei Investment, the new shareholder, and its shareholder Jizhong Energy Group have strong economic strength and are engaged in air transportation and aviation-related businesses. The Capital Injection by the new shareholder will facilitate Xiamen Airlines to further enhance its corporate governance, improve its operation and management efficiency and profitability, and proactively promote the cooperation between Xiamen Airlines and Hebei Investment in various fields, thereby creating bigger room for the growth of Xiamen Airlines and generating better return from its investments. The introduction of the new shareholder will bring Xiamen Airlines with additional capital and, through the leveraging effect of financing, further lower the gearing ratio of Xiamen Airlines, enhance its financing ability, competitive strength and profitability. It will also further enhance the competitive position and profitability of the Company and Xiamen Airlines in China's civil aviation market, thus creating a better return for the shareholders of the Company.

The Directors believe that the Capital Injection can strengthen the capital base of Xiamen Airlines and provide fund to meet its growth. Xiamen Airlines intends to use the capital raised as working capital. The Directors (including independent non-executive Directors) believe that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

## **IMPLICATION UNDER THE LISTING RULES**

The Capital Injection reduces the equity interests of the Company in Xiamen Airlines. This reduction of equity interests represents a deemed disposal of the Company. The Deemed Disposal is not expected to have any immediate material effect on the profit and loss of the Group. Xiamen Airlines will remain a subsidiary of the Company subsequent to the Deemed Disposal. As the profit ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Deemed Disposal exceed 5% but are below 25%, the Deemed Disposal constitutes a discloseable transaction of the Company and is only subject to the reporting and announcement requirements under the Listing Rules.

## **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreement”	a joint venture agreement entered into between the Company, Xiamen Jianfa, Hebei Investment on 20 December 2010
“Board”	the board of Directors
“Capital Injection”	the act of RMB 1,460 million cash capital injection into Xiamen Airlines by Hebei Investment for its registered capital (RMB 450 million) and its capital reserve (RMB 1,010 million)
"China" or "PRC"	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	China Southern Airlines Company Limited, a company incorporated under the laws of the PRC whose H Shares, A Shares and American depositary shares are listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, Inc., respectively
“Deemed Disposal”	a deemed disposal of the Company’s 9% equity interests in Xiamen Airlines triggered by the Capital Injection
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries (as defined under the Listing Rules)
“Hebei Investment”	Hebei Aviation Investment Group Co., Ltd. (河北航空投資集團有限公司), a company independent of the Company and its connected persons who will inject an aggregate amount of RMB1,460 million cash into Xiamen Airlines as its registered capital and its capital reserve pursuant to the Agreement in

	exchange for 15% equity interests in it
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share of RMB1.00 each in the capital of the Company
"Shareholder(s)"	the holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Valuation"	the valuation in respect of the net assets value of Xiamen Airlines prepared by an independent professional valuer at the aggregate market value of RMB 8,292,457,200 as at 31 July 2010
"Xiamen Airlines"	Xiamen Airlines Company Limited, a limited liability company incorporated in the PRC and a subsidiary (as defined in the Listing Rules) owned as to 60% by the Company as at the date of this announcement and owned as to 51% by the Company after the Capital Injection
"Xiamen Jianfa"	Xiamen Jianfa Group Co., Ltd. (廈門建發集團有限公司), a limited liability company incorporated in the PRC and holds 40% equity interests in Xiamen Airlines as at the date of this announcement

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

20 December 2010

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