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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 AND CONNECTED TRANSACTION**  
**AND**  
**CONTINUING CONNECTED TRANSACTIONS**  
**(FINANCIAL SERVICES AGREEMENT)**

The Company announces that, on 8 November 2010 (after trading hours), in view of the forthcoming expiration of the financial services agreement dated 15 November 2007, the Company and the Finance Company have negotiated and entered into the Financial Services Agreement to renew and extend the term of the provision of the financial services contemplated under the Financial Services Agreement for a period of three years subject to the terms and conditions provided therein. Conditional upon the approval of the Independent Shareholders being obtained, the Financial Services Agreement will take effect on 1 January 2011 and will expire on 31 December 2013.

As the Finance Company is a connected person of the Company under the Listing Rules, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules. As each of the relevant percentage ratios (except for the profits ratio which is not applicable) for the Provision of Deposit Services is higher than 5% but less than 25% on an annual basis, the Provision of Deposit Services constitutes a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules. Further, the Provision of Deposit Services constitutes the provision of financial assistance under Rule 14.04(1)(e) of the Listing Rules and thus a discloseable transaction under Chapter 14 of the Listing Rules.

The Provision of Loan Services provided by the Finance Company to the Group would amount to financial assistance by a connected person for the benefit of the Group, which are on normal commercial terms similar or even more favourable than those offered from independent third parties for comparable services in the PRC and which is exempt under Rule 14A.65(4) of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements since no security over the assets of the Group granted in respect of the loan.

In respect of the other financial services to be provided by the Finance Company to the Group, the Company expects that the total fees payable by the Group to the Finance Company will not

exceed RMB5 million for each of the three years ending 31 December 2013, which fall within the de minimis threshold set out in Rule 14A.33 of the Listing Rules, therefore the provision of the other financial services by the Finance Company to the Group is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules. The Company will comply with the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules if the transaction amount of the other financial services under the Financial Services Agreement would exceed the relevant threshold.

CSAHC and its associates are required to abstain from voting in respect of the proposed resolution to approve the Provision of Deposit Services.

The Company will send a circular containing, among other things, a letter of advice from the independent financial adviser to both the Independent Board Committee and the Independent Shareholders and a letter of recommendation from the Independent Board Committee to the Independent Shareholders and the details of the general meeting to be held to approve the Provisions of Deposit Services on or before 29 November 2010 in accordance with the Listing Rules.

The Financial Services Agreement is also required to be disclosed pursuant to the relevant rules and regulations of the Shanghai Stock Exchange.

Reference is also made to the Announcements dated 12 November 2004 and 15 November 2007 in relation to, among others, the previous continuing connected transactions between the Parties.

## **FINANCIAL SERVICES AGREEMENT**

### **Date**

8 November 2010 (after trading hours)

### **Parties**

- (a) The Company, its principal business activity of the Company is that of civil aviation.
- (b) The Finance Company, a non wholly-owned subsidiary of CSAHC which is owned as to approximately 66.02% by CSAHC and its wholly-owned subsidiary, 33.98% by the Company together with its five subsidiaries. The principal business activity of the Finance Company is that of providing financial services, which it is authorised to carry out under the applicable rules and regulations of the PRC.

### **Financial services**

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

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

Communications, Bank of China Limited, China Merchants Bank Co. Ltd. and Standard Chartered Bank (China), etc.

- (2) Make loans or provide credit line services to the Group and the entering into of separate loan agreements, which will set out the terms and conditions of the loans, upon application by the Company during the term of the Financial Services Agreement. The Company will comply with the Listing Rules when entering into such separate written agreements. The Finance Company shall not charge interest rates higher than those set by the PBOC for similar loans. The total amount of outstanding loans extended by the Finance Company to the CSAHC Group (excluding the Group) must not exceed the sum of the Finance Company's shareholders' equity, capital reserves and money deposit received from other parties (except the Group).
- (3) Other financial services including financial and financing consultation, credit certification and other relevant advice and agency services, insurance agency services, and other businesses which the Finance Company are approved by CBRC to operate, and the entering into of separate agreements, which will set out the terms and conditions of such services, upon request by the Company during the term of the Financial Services Agreement. If the Company is approved to issue bond, the Finance Company can accept engagement by the Company to provide bond issuance or underwriting services, subject to the entering into of separate agreements. The Company will comply with the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules if the transaction amount of other financial services under the Financial Services Agreement would exceed the relevant threshold when entering into such separate written agreements.

### **Term of the Financial Services Agreement**

The Financial Services Agreement is for a fixed term of 3 years, commencing from 1 January 2011 to 31 December 2013, and is renewable, subject to the compliance with the applicable requirements under the Listing Rules, by an application in writing by the Company not less than 30 days before the end of the fixed term.

### **Major terms**

The major terms of the Financial Services Agreement are set out below:

- the Company is not subject to any extra charges for depositing money with the Finance Company. For the other financial services provided by the Finance Company under the Financial Services Agreement, the Company is liable to pay the Finance Company the standard charging rates set by the PBOC. The PRC commercial banks also charge similar charging rates set by the PBOC;
- the interest rate for the Group's deposits with the Finance Company shall not be lower than the basis rate allowed by the PBOC for the same type of deposit and, subject to the above, the interest rate payable shall be the same as or higher than the rate payable by normal commercial banks in the PRC for comparable deposits (whichever is higher);
- the interest rate for loans provided to the Group by the Finance Company shall not be higher than the basis rate allowed by the PBOC for the same type of loan and, subject to

the above, the interest rate charged on the loans to the Group shall be equal to or lower than the rate charged by normal commercial banks in the PRC for comparable loans (whichever is lower);

- the fees charged by the Finance Company for the provision of other financial services shall be fixed according to the rate of fees chargeable by the PBOC or the CBRC and, subject to the above principle, the fees chargeable shall be equal to or lower than the rate charged by the Finance Company to independent third parties for the same type of financial services; and
- the Company will make payment for such interest, fees and commissions in accordance with the payment terms of the separate agreements for the provision of loans or other financial services as might be entered into between the Parties.

### **Proposed annual Cap and rationale**

The Company currently expects to increase the amount of deposit of its cash balance to the Finance Company. Pursuant to the Financial Services Agreement, unless agreed otherwise between the relevant parties and conditional upon the approval by the Independent Shareholders being obtained, each of the maximum daily balance of deposits (including the corresponding interests accrued thereon) placed by the Company as well as the maximum amount of the outstanding loan provided by the Finance Company to the Company (including the corresponding interests payable accrued thereon) at any time during the life of the Financial Services Agreement shall not exceed the Cap which is set at RMB 4 billion on any given day.

The Cap in relation to the Provision of Deposit Services is determined principally by reference to:

- (i) the increase in the amount of net cash flow from the operating activities of the Group to RMB 9.4 billion held by the Group as at 30 September 2010 as compared to the same period of the previous year ( 2009: RMB 9.04 billion);
- (ii) the cash flow position of the Group. The amount of cash and cash equivalents held by the Group as at 30 September 2010 was RMB 8.13 billion (unaudited);
- (iii) the previous cap of RMB 2.6 billion provided for the Provision of the Deposit Services under the financial services agreement dated 15 November 2007 (details of which are provided in the Announcements);
- (iv) the maximum historical daily balance of the deposits of the Group with the Finance Company during the two financial years ended 31 December 2009 and the nine months ended 30 September 2010 (as provided below); and
- (v) the persistent strong national economy and a stable increase of the market demand for the aviation transportation market (taking into account the positive growth trend of the aviation industry in 2010 and the appreciation trend of Renminbi against major currencies such as US dollar). It is anticipated that the scale of deposits placed with/loan from the Finance Company will increase at 15% per annum. Based on the amount of RMB deposits of the Company as at 31 December 2009, the amount of RMB deposits of the Company as at 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 will be approximately RMB 3.88 billion, RMB 4.46 billion, RMB 5.1 billion and RMB 5.87 billion. Assuming that the Company will place approximately 70%

of its RMB deposits with the Finance Company, the maximum daily amount of the deposit/loan shall be revised from RMB 2.6 billion to RMB 4 billion. Such projection is assumed solely for the purpose of determining the Cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

### Historical figures

The historical figures relating to the transactions contemplated under the Financial Services Agreement, during the two financial years ended 31 December 2009 and for the financial period from 1 January 2010 to 30 September 2010, were as follows:

	Balance of the deposits placed with the Finance Company as at <b>RMB ('000,000)</b>	Balance of the outstanding loans provided by the Finance Company as at <b>RMB ('000,000)</b>	Deposit interest income received from the Finance Company for the financial period ended <b>RMB ('000,000)</b>	Loan interest payable to the Finance Company for the financial period ended <b>RMB ('000,000)</b>	Other financial services fee payable to the Finance Company <b>RMB ('000,000)</b>
31 December 2008	11.39	25.39	22	38	0.1
31 December 2009	8.62	8.19	11	71	0.02
30 September 2010	16.59	8.77	12	36	-

The historical maximum daily balance of the deposits with the Finance Company placed by the Group and the historical maximum daily balance of outstanding loans owned by the Group to the Finance Company under the previous financial services agreement, during the two financial years ended 31 December 2009 and for the nine months ended 30 September 2010, were as follows:

	For the financial year ended 31 December		For the nine months ended 30 September
	2008	2009	2010
	<b>RMB ('000,000)</b>	<b>RMB ('000,000)</b>	<b>RMB ('000,000)</b>
Maximum daily amount of deposits placed by the Group	2,049	1,964	2,490
Maximum daily amount of outstanding loans owed by the Group	2,538.7	2,508.7	1,649.7

The loans provided by the Finance Company to the Group in the past were unsecured. In future, if the Company provides any guarantee and/or security in respect of any future loans to be provided by the Finance Company to members of the Group, it will comply with the then applicable requirements under the Listing Rules.

### **Reasons and benefits of the Financial Services Agreement**

The Finance Company is a non-bank finance company established under the direction of the PBOC with the main business scope of providing various financial services, including deposit and loan facilities, credit facilities, guarantee, remittance of money and credit references, to CSAHC and its subsidiaries.

The main reasons for the election by the Company to use the Finance Company for the provision of the relevant financial services are as follows:

- the pricing policy of the Finance Company and commercial banks in China are subject to guidelines set by the PBOC. Therefore, the fees charged by the Finance Company for its services to the Company is comparable to those charged by PRC banks for similar services;
- the Finance Company is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, the capital risks are reduced through the introduction of risk control measures;
- the Group usually receives interest on its money deposited with the Finance Company at rates which are no less favourable than the benchmark interest rates set by the PBOC,. This arrangement allows the Group to achieve a more efficient use of its current capital, since the Group can enjoy better interest rates on depositing its current capital with the Finance Company than the benchmark rates of interest set by the PBOC that the PRC commercial banks can offer to the Group;
- subject to the entering into of further separate agreements, the Company can borrow from the Finance Company at interest rates not higher than those set by the PBOC for similar loans. In addition, the Company is not precluded under the Financial Services Agreement to borrow money from other PRC commercial banks where the terms and conditions are favourable. The Company can also enjoy the convenience of other financial services at the rates of fees and commissions set by the PBOC, which are comparable to the rates charged by PRC commercial banks for similar services;
- the Group is expected to benefit from the Finance Company's better understanding of operations of the Group which should allow expedient and efficient service provision (including internet banking). For instance, it is expected that loans from the Finance Company may be approved quicker than a commercial bank;
- the Finance Company is a regulated financial institution in the PRC and is entitled to interbank interest rates, which are generally higher than normal commercial interest rates when re-depositing deposits with commercial banks in the PRC. The Company also holds a 18.75% equity interest directly, and 15.23% equity interest indirectly through its

subsidiaries, in the Finance Company. Accordingly, the Company will share the benefit from the Finance Company's profits;

- pursuant to the relevant regulations of the PBOC and the CBRC, the customers of the Finance Company are limited to entities within the Group, thereby reducing the risks that the Finance Company may otherwise be exposed to if its customers included other entities unrelated to Group;
- the Company has appointed director representatives in the Finance Company to supervise the operation and management and the internal control of the Finance Company. Further, the Finance Company will report to the Company on a monthly basis regarding the status of the Company's deposit and re-deposit with other commercial banks made by the Finance Company so as to strengthen the Company's supervision over its deposit in the Finance Company; and
- On 31 March 2009, pursuant to the financial services agreement entered into between the Company and the Finance Company, CSAHC, as the controlling shareholder of the Finance Company, has undertaken to the Company the following:
  - the Finance Company is a duly incorporated enterprise group finance company under the "Administrative Measures for Enterprise Group Finance Companies" and the other relevant rules and regulations, whose principal business is to provide finance management services, such as deposit and financing for the members of the Group; and the relevant capital flows are kept within the Group;
  - The operations of the Finance Company are in compliance with the requirements of the relevant laws and regulations and it is running well, therefore the deposits placed with and loans from the Finance Company of the Company are definitely secure. In future, the Finance Company will continue to operate in strict compliance with the requirements of the relevant laws and regulations;
  - In respect of the Company's deposits with and borrowings from the Finance Company, the Company will continue to implement its internal procedures in accordance with the relevant laws and regulations and the Articles of Association, and CSAHC will not intervene in the relevant decision-making process of the Company; and
  - As the Company is independent from CSAHC in respect of its assets, businesses, personnel, finance and organizational structures, CSAHC will continue to fully respect the rights of the Company to manage its own operations, and will not intervene in the daily business operations of the Company; and
- The Board has passed the "The Risk Control System relating to the Connected Transactions between China Southern Airlines Company Limited and Southern Airlines Group Finance Company Limited " on 28 July 2010 (the full text of which has been uploaded on the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn)) and carried out connected transactions with the Finance Company according this system, so as to ensure the safety and liquidity of the deposits placed by the Company with the Finance Company.

The Board, (excluding the independent non-executive Directors whose view will be expressed in the circular), considers that the terms of the Financial Services Agreement and the Cap in respect of the maximum daily balance of deposit (including the corresponding interests accrued thereon) are fair and reasonable and are entered into on normal commercial terms, or on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Group and its shareholders as a whole.

### **Implications under the Listing Rules**

As the Finance Company is a connected person of the Company under the Listing Rules, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As each of the relevant percentage ratios (except for the profits ratio which is not applicable) for the Provision of Deposit Services is higher than 5% but less than 25% on an annual basis, the Provision of Deposit Services constitutes a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules. Further, the Provision of Deposit Services constitutes the provision of financial assistance under Rule 14.04(1)(e) of the Listing Rules and thus a discloseable transaction under Chapter 14 of the Listing Rules.

The Provision of Loan Services provided by the Finance Company to the Group would amount to financial assistance by a connected person for the benefit of the Group, which are on normal commercial terms similar or even more favourable than those offered from independent third parties for comparable services in the PRC and which is exempt under Rule 14A.65(4) of the Listing Rules from all reporting, annual review, announcement and independent shareholders' approval requirements since no security over the assets of the Group granted in respect of the loan.

In respect of the other financial services to be provided by the Finance Company to the Group, the Company expects that the total fees payable by the Group to the Finance Company will not exceed RMB 5 million for each of the three years ending 31 December 2013, which fall within the de minimis threshold set out in Rule 14A.33 of the Listing Rules, therefore the provision of the other financial services by the Finance Company to the Group is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules. The Company will comply with the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules if the transaction amount of other financial services under the Financial Services Agreement would exceed the relevant threshold. The Company had no prior transactions with CSAHC and its ultimate holding company which require aggregation with the current transactions contemplated under the Financial Services Agreement under Rules 14.22 and Rule 14A.25 of the Listing Rules.

Among the 12 Directors, four Directors, Mr. Si Xian Min, Mr. Li Wen Xin, Mr. Wang Quan Hua, Mr. Liu Bao Heng, who were connected Directors, were required to abstain from voting in respect of the Financial Services Agreements. All remaining eight Directors who were entitled to vote, unanimously approved the above resolutions. The format and procedure for passing the resolution was in compliance with the Company Law of the PRC and the Company's articles of association.



An Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Provision of the Deposit Services. Independent financial advisers will be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Provision of the Deposit Services.

CSAHC and its associates are required to abstain from voting in respect of the proposed resolution to approve the Provision of the Deposit Services in the general meeting.

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

The Financial Services Agreement is also required to be disclosed pursuant to the relevant rules and regulations of the Shanghai Stock Exchange.

### **FURTHER INFORMATION**

The Company will send a circular containing, among other things, a letter of advice from the independent financial adviser to both the Independent Board Committee and the Independent Shareholders and a letter of recommendation from the Independent Board Committee to the Independent Shareholders and the details of the Provision of Deposit Services and the Cap on or before 29 November 2010 in accordance with the Listing Rules.

### **DEFINITIONS**

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

"Announcements"	the announcements issued by the Company on 12 November 2004 and 15 November 2007 in relation to, among others, the continuing connected transactions contemplated under the financial services agreement dated 12 November 2004 and the financial services agreement dated 15 November 2007, respectively
"Board"	the board of Directors
"Cap(s)"	the maximum daily balance of deposits placed by the Company (including the corresponding interest accrued thereon) on any given day during the life of the Financial Services Agreement
"CBRC"	China Banking Regulatory Commission
"Company"	China Southern Airlines Company Limited, a joint stock company incorporated in the PRC with limited liability
"CSAHC"	China Southern Air Holding Company, a state-owned enterprise established under the laws of the PRC and the controlling shareholder of the Company
"Directors"	directors of the Company

“Finance Company”	Southern Airlines Group Finance Company Limited, a company incorporated in the PRC with limited liability
“Financial Services Agreement”	the financial services agreement dated 8 November 2010 entered into between the Parties
“Group”	the Company and its existing subsidiaries
“Independent Board Committee”	the independent committee of the Board, the members of which consist of the independent non-executive Directors, formed to advise the Independent Shareholders with respect to the Financial Services Agreement, in particular, the Provision of Deposit Services
“Independent Shareholders”	shareholders of the Company other than CSAHC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	the Company and the Finance Company
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC” or “China”	the People’s Republic of China (other than, for the purpose of this announcement only, Hong Kong, Macau and Taiwan)
“Provision of Deposit Services”	the provision of deposit of money services by the Finance Company to the Company pursuant to the Financial Services Agreement
“Provision of Loan Services”	the provision of loan services (including credit line services) by the Finance Company to the Company pursuant to the Financial Services Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board  
**China Southern Airlines Company Limited**  
**Xie Bing and Liu Wei**  
*Company Secretary*

Guangzhou, the People’s Republic of China

8 November 2010

*As at the date of this announcement, the Directors 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 as executive Directors; and Wang Zhi, Sui Guang Jun, Gong Hua Zhang and Lam Kwong Yu as independent non-executive Directors.*