RINDOM DAVID E
Form 4
November 23, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
RINDOM DAVID E

(Last) (First) (Middle)

1300 MAIN STREET, P.O. BOX 130

(Street)

ATCHISON, KS 66002

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MGP INGREDIENTS INC [MGPI]

3. Date of Earliest Transaction (Month/Day/Year)
11/19/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/19/2010		M		2,500	A	$ 4.65	64,161	D	
Common Stock								55,539	I	By Trust
Common Stock								295	I	By IRA
Common Stock								8,122	I	By Spouse's trust
Common Stock								0.91	I	By ESPP

Common Stock	23,218.031	I	By ESOP

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Options	$ 4.65	11/19/2010		M			2,500	12/07/2000	12/07/2010	Common Stock	2,500
Employee Stock Options	$ 3.62							(1)	12/02/2012	Common Stock	7,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RINDOM DAVID E 1300 MAIN STREET P.O. BOX 130 ATCHISON, KS 66002			Vice President	

Signatures

David E. Rindom	11/23/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 2,500 exercisable 12/02/2004; 2,500 exercisable 12/02/2005; and 2,500 exercisable on 12/02/2006.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. AMILY: Times New Roman">Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

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31 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2009 RMB million	2008 RMB million
Deposits with banks	1,116	1,998
Cash at bank and in hand	3,227	2,651
Cash and cash equivalents in the consolidated balance sheet	4,343	4,649

Southern Airlines Group Finance Company Limited ("SA Finance") is a PRC authorised financial institution controlled by CSAHC and is an associate of the Group. In accordance with the financial agreement dated May 22, 1997, as revised subsequently on December 31, 2004 and November 15, 2007 between the Company and SA Finance, all of the Group's deposits accepted by SA Finance would be simultaneously placed with several designated major PRC banks by SA Finance. As at December 31, 2009, the Group's deposits with SA Finance amounted to RMB862 million (2008: RMB1,139 million) (Note 45(d)).

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31 Cash and cash equivalents (continued)

(b) Reconciliation of profit/(loss) before taxation to cash generated from operations:

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Profit/(loss) before taxation		432	(4,724)	2,879
Depreciation of property, plant and equipment	20	5,962	5,759	5,597
Other amortisation	11	80	58	28
Amortisation of deferred benefits and gains	11	(71)	(71)	(71)
Impairment loss on property, plant and equipment		26	1,884	109
Share of associates' results	22	(69)	12	(57)
Share of jointly controlled entities' results	23	(214)	(170)	(123)
(Gain)/loss on sale of property, plant and equipment, net	15	(31)	59	(130)
Gain on sale of available-for-sale equity securities	15	(78)	-	-
Gain on sale of other investment in equitiy securities		-	-	(107)
Gain on sale of a jointly controlled entity		-	(143)	-
Gain on sale of equity interest in subsidiaries		-	(37)	(7)
Interest income		(68)	(103)	(73)
Interest expense	13	1,497	1,987	2,291
(Gain)/Loss on derivative financial instruments, net		(45)	124	(90)
Dividend income from other investments in equity securities		(14)	(14)	(12)
Unrealised exchange gain, net		(70)	(2,649)	(2,832)
(Increase)/decrease in inventories		(27)	(16)	108
(Increase)/decrease in trade receivables		(42)	649	(349)
(Increase)/decrease in other receivables		(15)	203	156
Increase in prepaid expenses and other current assets		(91)	(28)	(8)
(Decrease)/increase in net amounts due to related companies		(48)	15	(50)
Increase/(decrease) in trade and bills payables		3,639	(491)	(95)
(Decrease) /increase in sales in advance of carriage		(48)	353	451
(Decrease)/increase in accrued expenses		(49)	1,274	1,790
Increase/(decrease) in other liabilities		353	(36)	245
Increase in deferred revenue		204	116	98
Increase/(decrease) in provision for major overhauls		8	262	(122)
Decrease in provision for early retirement benefits		(31)	(51)	(76)
Increase in deferred benefits and gains		42	34	148
Cash generated from operations		11,232	4,256	9,698

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32 Asset classified as held for sale

	2009 RMB million	2008 RMB million
Share of net assets	529	-

In accordance with a Transfer Agreement dated September 28, 2009 and a Supplemental Transfer Agreement dated December 29, 2009, entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU, a jointly controlled entity of the Company. As at December 31, 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.

33 Bank and other loans

(a) At December 31, 2009, bank and other loans were repayable as follows:

	2009 RMB million	2008 RMB million
Within 1 year or on demand	17,452	22,178
After 1 year but within 2 years	8,223	6,104
After 2 years but within 5 years	12,038	10,343
After 5 years	7,614	982
	27,875	17,429
	45,327	39,607

(b) At December 31, 2009, bank and other loans are analysed as follows:

	2009 RMB million	2008 RMB million
Short-term bank loans	11,012	18,232
Long-term bank and other loans due within one year (classified as current liabilities)	6,440	3,946
	17,452	22,178
Long-term bank and other loans due after one year (classified as non-current liabilities)	27,875	17,429
	45,327	39,607
Representing:		
Bank loans	45,324	39,604
Other loans	3	3
	45,327	39,607

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33 Bank and other loans (continued)

(c) As at December 31, 2009, the Group’s weighted average interest rates on short-term borrowings were 1.18% per annum (2008: 4.48% per annum).

(d) Details of bank and other loans with original maturity over one year are as follows:

	2009 RMB million	2008 RMB million
Renminbi denominated loans		
Non-interest bearing loan from a municipal government authority	3	3
Floating interest rates ranging from 90% to 91% of benchmark interest rate (stipulated by PBOC) as at December 31, 2009, with maturities through 2013	5,660	7,647
United States Dollars denominated loans		
Fixed interest rates ranging from 3.26% to 7.20% per annum as at December 31, 2009, with maturities through 2015	772	994
Floating interest rates ranging from 1-month LIBOR + 0.50% to 1.20% per annum as at December 31, 2009, with maturities through 2019	4,681	-
Floating interest rates ranging from 3-month LIBOR + 0.45% to 1.20% per annum as at December 31, 2009, with maturities through 2019	13,937	1,343
Floating interest rates ranging from 6-month LIBOR + 0.30% to 2.30% per annum as at December 31, 2009, with maturities through 2019	9,262	11,388
	34,315	21,375
Less: loans due within one year classified as current liabilities	(6,440)	(3,946)
	27,875	17,429

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33 Bank and other loans (continued)

(e) The remaining contractual maturities at the balance sheet date of the Group's bank and other loans, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay, are as follows:

	2009 RMB million	2008 RMB million
Contractual undiscounted cash flows		
Within 1 year	18,141	23,478
After 1 year but within 2 years	8,640	6,752
After 2 years but within 5 years	12,461	10,792
After 5 years	7,866	1,035
	47,108	42,057
Consolidated balance sheet carrying amounts	45,327	39,607

(f) As at December 31, 2009, bank and other loans of the Group totalling RMB17,677 million (2008: RMB9,188 million) were secured by mortgages over certain of the Group's aircraft, advance payments for aircraft, lease prepayments of land use right and investment properties with aggregate carrying amount of RMB23,996 million (2008: RMB17,652million).

(g) As at December 31, 2009, certain bank and other loans were guaranteed by the following parties:

	2009 RMB million	2008 RMB million
Guarantors		
Industrial and Commercial Bank of China Ltd.	-	15
Export-Import Bank of the United States	149	304
CSAHC (Note 45(e))	512	783
Shenzhen Yingshun Investment & Development Co., Ltd.	-	22
SA Finance (Note 45(e))	-	1
Bank of Communications Co., Ltd.	-	438
China Minsheng Banking Corp., Ltd.	-	629
	661	2,192

(h) As at December 31, 2009, loans to the Group from SA Finance amounted to RMB819 million (2008: RMB2,539 million) (Note 45(d)).

(i) The Group has significant bank and other loans balances as well as obligations under finance leases (Note 35) which are denominated in US dollars as at December 31, 2009. The net exchange gain of RMB93 million (2008: RMB2,592 million; 2007: RMB2,832 million) recorded by the Group was mainly attributable to the exchange gain arising from retranslation and settlement of bank and other loans balances and finance lease obligations denominated in US dollars and Japanese Yen. The foreign currency risk is further discussed in Note 49(c).

(j) As at December 31, 2008, short-term bank loans of the Group amounting to RMB37 million were secured by pledged bank deposits of RMB51 million.

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33 Bank and other loans (continued)

(k) As at December 31, 2009, a long-term loan of RMB10 million (2008: RMB10 million) was granted by SA Finance to a subsidiary of the Company. The loan was secured by the trade receivables of the subsidiary due from the Company during the loan period. As at December 31, 2009, the balance of the trade receivables of the subsidiary due from the Company amounted to RMB21 million (2008: RMB8 million).

34 Short-term financing bills

	2009 RMB million	2008 RMB million
Short-term financing bills	-	2,000

In October 2008, the Group issued short-term financing bills with total value of RMB2,000 million, bearing coupon interest rate at 4.7%, with a maturity period of one year for funding of the business activities of the Company. The short-term financing bills were fully repaid in October 2009.

35 Obligations under finance leases

The Group have commitments under finance lease agreements in respect of aircraft and related equipment. The majority of these leases have terms of 10 to 12 years expiring during the years 2011 to 2019. As at December 31, 2009, future payments under these finance leases are as follows:

	2009			2008		
	Present value of the minimum lease payments RMB million	Total minimum lease payments RMB million	Interest RMB million	Present value of the minimum lease payments RMB million	Total minimum lease payments RMB million	Interest RMB million
Within 1 year	1,431	1,972	541	1,781	2,390	609
After 1 year but within 2 years	1,495	1,970	475	1,215	1,752	537
After 2 years but within 5 years	4,240	5,274	1,034	3,654	4,845	1,191
After 5 years	6,152	6,596	444	6,288	7,049	761
	13,318	15,812	2,494	12,938	16,036	3,098
Less: balance due within one year classified as current liabilities	(1,431)			(1,781)		
	11,887			11,157		

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35 Obligations under finance leases (continued)

Details of obligations under finance leases are as follows:

	2009 RMB million	2008 RMB million
United States Dollars denominated obligations		
Fixed interest rates ranging from 4.24% to 6.01% per annum as at December 31, 2009	7,035	7,949
Floating interest rates 3 month LIBOR + 1% per annum as at December 31, 2009	2,172	-
Floating interest rates ranging 6 month LIBOR + 0.03% to 1.05% per annum as at December 31, 2009	4,111	4,515
Japanese Yen denominated obligations		
Fixed interest rates ranging from 2.20% to 3.51% per annum as at December 31, 2008	-	474
	13,318	12,938

Under the terms of the leases, the Group has an option to purchase, at or near the end of the lease term, certain aircraft and related equipment at either fair market value or a percentage of the respective lessor's defined cost.

Security, including charges over the assets concerned and relevant insurance policies, is provided to the lessors. As at December 31, 2009, certain of the Group's aircraft with carrying amount of RMB17,989 million (2008: RMB18,054 million) were mortgaged to secure finance lease obligations totalling RMB13,318 million (2008: RMB12,938 million).

36 Trade and bills payables

	2009 RMB million	2008 RMB million
Bills payable	3,207	148
Trade payables	1,785	1,205
	4,992	1,353

36 Trade and bills payables (continued)

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

	2009 RMB million	2008 RMB million
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
	4,992	1,353

All of the trade and bills payables are expected to be settled within one year.

37 Deferred revenue

	2009 RMB million	2008 RMB million
Current portion	316	261
Non-current portion	594	445
	910	706

Deferred revenue represents the unredeemed frequent flyer revenue.

38 Amounts due from/to related companies

(a) Amounts due from related companies

	2009 RMB million	2008 RMB million
CSAHC and its affiliates	6	1
An associate	14	1
Jointly controlled entities	31	9
	51	11

The amounts due from related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be recovered within one year.

(b) Amounts due to related companies

	2009 RMB million	2008 RMB million
CSAHC and its affiliates	43	64
Jointly controlled entities	51	38
	94	102

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be settled within one year.

39 Accrued expenses

	2009 RMB million	2008 RMB million
Jet fuel costs	1,368	1,320
Air catering expenses	115	161
Salaries and welfare	1,545	1,452
Repairs and maintenance	1,827	1,853
Provision for major overhauls (Note 41)	503	409
Provision for early retirement benefits (Note 42)	57	68
Landing and navigation fees	1,899	2,097
Computer reservation services	518	539
Interest expenses	146	339
Others	175	182
	8,153	8,420

40 Other liabilities

	2009 RMB million	2008 RMB million
CAAC Infrastructure Development Fund, airport construction surcharge and airport tax payable	1,052	899
Construction cost payable	154	106
Advance payments on chartered flights	71	58
Sales agent deposits	224	222
Other taxes payable	611	591
Others	1,264	1,087
	3,376	2,963

41 Provision for major overhauls

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	2009 RMB million	2008 RMB million
At January 1	1,354	1,133
Provision for the year	398	462
Provision utilised during the year	(296)	(241)
At December 31	1,456	1,354
Less: current portion included in accrued expenses (Note 39)	(503)	(409)
	953	945

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42 Provision for early retirement benefits

Details of provision for early retirement benefits in respect of obligations to early retired employees are as follows:

	2009 RMB million	2008 RMB million
At January 1	247	307
Provision for the year (Note 12)	6	10
Financial costs (Note 13)	14	19
Payments made during the year	(80)	(108)
Effect of changes in discount rate	18	19
At December 31	205	247
Less: current portion included in accrued expenses (Note 39)	(57)	(68)
	148	179

The Group has implemented an early retirement plan for certain employees. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of services from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employees. The present value of the future cash flows expected to be required to settle the obligations is recognised as provision for early retirement benefits.

43 Share capital and capital management

(a) Share capital

	2009 RMB million	2008 RMB million
Registered, issued and paid up capital:		
4,021,150,000 domestic state-owned shares with selling restrictions of RMB1.00 each (2008: 3,300,000,000 shares of RMB1.00 each)	4,021	3,300
2,482,417,000 H shares of RMB1.00 each (2008: 1,761,267,000shares of RMB1.00 each)	2,482	1,761
1,500,000,000 A shares of RMB1.00 each (2008: 1,500,000,000 shares of RMB1.00 each)	1,500	1,500
	8,003	6,561

A bonus share issue of 1,100,000,000 domestic state-owned shares, 587,089,000 H shares and 500,000,000 A shares, totalling 2,187,089,000 shares, by the conversion of share premium in the amount of RMB2,187,089,000 to share capital of the same amount, was approved by shareholders and relevant government authorities and took effect in November 2008.

On August 20, 2009 and August 21, 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, for net cash considerations of RMB2,259 million and RMB721 million, respectively.

The 721,150,000 A shares and 721,150,000 H shares issued on August 20, 2009 and August 21, 2009 are subject to a lock-up period to August 20, 2012 and August 21, 2010, respectively. The remaining 3,300,000,000 domestic state-owned shares would become listed and tradable in August 2010.

All the domestic state-owned, H and A shares rank pari passu in all material respects.

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43 Share capital and capital management (continued)

(b) Capital management

The Group’s primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide returns to its shareholders, by securing access to finance at a reasonable cost.

The Group manages the amount of capital in proportion to risk and managing its debt portfolio in conjunction with projected financing requirements. The Group monitors capital on the basis of the debt to equity ratio, which is calculated on net debt as a percentage of the total equity where net debt is represented by the aggregate of bank and other loans, short-term financing bills, 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.

There was no change in the Group’s approach to capital management during 2009 as compared with previous years. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Group’s debt to equity ratio remains high at 551% at December 31, 2009 (2008: 685%) because of the acquisitions of aircraft during the current and prior years.

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44 Reserves

	2009 RMB million	2008 RMB million
Share premium		
At January 1	3,138	5,325
Bonus Share Issue (Note 43)	-	(2,187)
Issue of shares (Note 43)	1,538	-
At December 31	4,676	3,138
Fair value reserve		
At January 1	18	183
Change in fair value of available-for-sale equity securities	19	(165)
At December 31	37	18
Statutory surplus reserve (Note (a))		
At January 1 and at December 31	526	526
Discretionary surplus reserve		
At January 1 and at December 31	77	77
Other reserve		
At January 1	150	4
Acquisition of equity interest in a subsidiary (Note (c))	-	(5)
Government contributions (Note (d))	1	151
At December 31	151	150
Retained earnings/(accumulated losses)		
At January 1	(3,449)	1,374
Profit/(loss) for the year	330	(4,823)
At December 31	(3,119)	(3,449)
Total	2,348	460

44 Reserves (continued)

(a) According to the PRC Company Law and the Articles of Association of the Company and certain of its subsidiaries, the Company and the relevant subsidiaries are required to transfer 10% of their annual net profits after taxation, as determined under the PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders and when there are retained earnings at the financial year end.

Statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(b) Dividend distributions may be proposed at the discretion of the Company's board of directors, after consideration of the transfers of reserves referred to above and making up cumulative prior years' losses. Pursuant to the Articles of Association of the Company, the net profit of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations, and (ii) the net profit determined in accordance with IFRSs. As at December 31, 2009, the Company did not have any distributable reserves (2008: Nil).

(c) The Company acquired certain equity interest in a subsidiary from CSAHC in 2008 (Note 45(c)(xv)). The balance represents the difference of the consideration paid and the share of net assets of the subsidiary.

(d) Pursuant to the "Notice of approval for funds to be used specifically for the purchase of snow handling equipment" issued by the CAAC, national fund amounting to RMB1 million was contributed during the year ended December 31, 2009 by the PRC government to the Company. Such fund is to be used specifically for the maintenance of safety condition of airports located at Zhengzhou, Luoyang and Nanyang.

During the year ended December 31, 2008, national funds amounting to RMB121 million and RMB35 million were contributed by the PRC government. Such funds are to be used specifically for the reconstruction after the snowstorm disaster and the maintenance of Urumqi airport parking apron and other projects.

Pursuant to the requirements of the relevant notice, the national funds were designated as capital contribution and vested solely by the PRC government. They can be converted to share capital of the entities receiving the funds upon approval by their shareholders and completion of other procedures.

45 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in Note 14, is as follows:

	2009 RMB'000	2008 RMB'000	2007 RMB'000
Short-term employees benefits	13,991	14,117	12,226
Post-employment benefits	922	1,268	275
	14,913	15,385	12,501

	2009 RMB'000	2008 RMB'000	2007 RMB'000
Directors and supervisors (Note 14)	7,609	8,578	6,790
Senior management	7,304	6,807	5,711
	14,913	15,385	12,501

Total remuneration is included in "staff costs" (Note 12).

(b) Contributions to post-employment benefit plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. Details of the Group's employee benefits plan are disclosed in Note 46.

45 Material related party transactions (continued)

(c) Transactions with CSAHC and its affiliates (the "CSAHC Group"), and the associates and jointly controlled entities of the Group

The Group obtained various operational services provided by the CSAHC Group and the associates and jointly controlled entities of the Group during the normal course of its business.

Details of the significant transactions carried out by the Group are as follows:

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Expenses paid to the CSAHC Group				
Handling charges	(i)	68	50	46
Air catering supplies	(ii)	-	60	157
Commission expense	(iii)	6	4	7
Sundry aviation supplies	(iv)	-	-	72
Lease charges for land and buildings	(v)	107	100	101
Property management fee	(vi)	19	31	31
Expenses paid to jointly controlled entities and an associate				
Ground service expenses	(vii)	36	64	37
Repairing charges	(viii)	1,344	1,129	1,047
Flight simulation service charges	(ix)	172	150	120
Advertising expenses	(x)	21	20	9
Income received from a jointly controlled entity				
Rental income	(ix)	47	33	31
Issuance of A shares to CSAHC	(xi)	2,279	-	-
Issuance of H shares to Nan Lung	(xi)	721	-	-
Acquisition of assets from CSAHC Group	(xii)	-	-	270
Disposal of GZ Aviation Hotel to CSAHC Group	(xiii)	-	-	75
Transfer of exclusive right to use certain advertising resources to Southern Airlines Culture and Media Co., Ltd.	(xiv)	-	35	-
Acquisition of 26% equity interest in West Australian Flying College from CSAHC Group	(xv)	-	5	-
	(xvi)	-	2	-

Disposal of certain buildings to Southern Airlines
Culture and Media Co., Ltd.

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45 Material related party transactions (continued)

(c) Transactions with CSAHC and its affiliates (the "CSAHC Group"), and the associates and jointly controlled entities of the Group (continued)

(i) The Group acquires aircraft, flight equipment and other airline-related facilities through Southern Airlines (Group) Import and Export Trading Company ("SAIETC"), a wholly-owned subsidiary of CSAHC and pays handling charges to SAIETC.

(ii) The Group purchases certain in flight meals and related services from Shenzhen Air Catering Company Limited ("SZ Catering"), which was an associate of the CSAHC. SZ Catering ceased to be a related party of the Company in November 2008.

(iii) Commission is earned by certain subsidiaries of CSAHC in connection with the air tickets sold by them on behalf of the Group. Commission is calculated based on the rates stipulated by the CAAC and International Air Transportation Association.

(iv) Certain sundry aviation supplies were purchased from Southern Airlines (Group) Economic Development Company ("SAGEDC"), a subsidiary of CSAHC in 2007. No sundry aviation supplies were purchased from SAGEDC during the year and 2008.

(v) The Group leases certain land and buildings in the PRC from CSAHC. Rental payments for land and buildings were paid or payable to CSAHC.

(vi) Guangzhou China Southern Airlines Property Management Co., Ltd, a subsidiary of CSAHC, provides property management services to the Group.

(vii) Beijing Ground Services, a former jointly controlled entity of the Group, provides airport ground service to the Group. In June 2009, the Company acquired 50% equity interests in Beijing Ground Services from the other venture of Beijing Ground Services and it became a wholly-owned subsidiary of the Company.

(viii) Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO") and MTU, both are jointly controlled entities of the Group, provide comprehensive maintenance services to the Group.

(ix) Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a jointly controlled entity of the Group, provides flight simulation services to the Group. In addition, the Group entered into operating lease agreements to lease certain flight training facilities and buildings to Zhuhai Xiang Yi.

(x) Southern Airlines Culture and Media Co., Ltd. an associate of the Group, provides advertising services to the Group.

(xi) On August 20, 2009 and August 21, 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, for cash considerations of RMB2,279 million and RMB721 million, respectively.

(xii) On August 14, 2007, the Company signed an agreement to acquire (1) the entire equity interest in Air Catering; (2) certain assets of Guangzhou Bi Hua Yuan Training Centre including certain properties and office facilities; and (3) certain assets of Nan Lung Travel & Express (Hong Kong) Limited, including certain properties and office facilities and the 51% equity interest in Nan Lung International Freight Limited ("Nan Lung Freight"), from

CSAHC for a total consideration of RMB270 million (Note 48(b)).

(xiii) On August 14, 2007, the Company signed an agreement to dispose of its equity interest in GZ Aviation Hotel Co., Ltd. to CSAHC at a consideration of RMB75 million.

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45 Material related party transactions (continued)

(c) Transactions with CSAHC and its affiliates (the “CSAHC Group”), and the associates and jointly controlled entities of the Group (continued)

(xiv) On November 11, 2008, the Company signed an agreement to transfer the exclusive right to use certain advertising space on the aircraft fleet for a period of 18 years to Southern Airlines Culture and Media Co., Ltd. an associate of the Group, for a total consideration of RMB35 million.

(xv) On December 30, 2008, the Company signed an agreement to acquire 26% equity interest in West Australian Flying College from CSAHC at a consideration of RMB5 million .

(xvi) On November 11, 2008, the Company signed an agreement to transfer certain buildings to Southern Airlines Culture and Media Co., Ltd. an associate of the Group at a consideration of RMB2 million.

In addition to the above, certain subsidiaries of CSAHC also provided hotel and other services to the Group during the year. The total amount involved is not material to the results of the Group for the current and prior years.

Details of amounts due from/to the CSAHC Group, and the associates and jointly controlled entities of the Group:

	2009 RMB million	2008 RMB million
Receivables:		
The CSAHC Group	6	1
Associates	14	1
Jointly controlled entities	31	9
	51	11
Payables:		
The CSAHC Group	43	64
Jointly controlled entities	51	38
	94	102

The amounts due from/to the CSAHC Group, the associates and jointly controlled entities of the Group are unsecured, interest free and have no fixed terms of repayment.

45 Material related party transactions (continued)

(d) Loans from and deposits placed with SA Finance

(i) Loans from SA Finance

At December 31, 2009, loans from SA Finance to the Group amounted to RMB819 million (2008: RMB2,539 million).

The loans were repayable and secured as follows:

	2009 RMB million	2008 RMB million
Within 1 year	400	2,100
After 2 years but within 5 years	419	439
	819	2,539
Unsecured	819	2,539

Interest expense paid on such loans amounted to RMB71 million (2008: RMB38 million; 2007: RMB17 million) and the interest rates ranged from 1.25% to 7.56% per annum during the year ended December 31, 2009 (2008: 4.75% to 7.56% per annum; 2007: 5.10% to 6.16% per annum).

(ii) Deposits placed with SA Finance

At December 31, 2009, the Group's deposits with SA Finance amounted to RMB862 million (2008: RMB1,139 million). The applicable interest rates are determined in accordance with the rates published by the PBOC.

Interest income received on such deposits amounted to RMB11 million (2008: RMB22 million; 2007: RMB20 million) during the year ended December 31, 2009.

(e) Guarantees from CSAHC and SA Finance

Certain bank loans of the Group were guaranteed by the following related parties:

	2009 RMB million	2008 RMB million
CSAHC	512	783
SA Finance	-	1
	512	784

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45 Material related party transactions (continued)

(f) Transactions with other state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions with the CSAHC Group, and the associates and jointly controlled entities of the Group as disclosed in Notes 45(c), (d), and (e) above, the Group conducts transactions with other state-controlled entities which include but are not limited to the following:

- Transportation services;
- Leasing arrangements;
- Purchase of equipment;
- Purchase of ancillary materials and spare parts;
- Ancillary and social services; and
- Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) The Group's transactions with other state-controlled entities, including state-controlled banks in the PRC

	2009 RMB million	2008 RMB million	2007 RMB million
Jet fuel cost	15,260	21,042	14,814
Interest income	56	77	47
Interest expense	1,249	1,719	1,751

(ii) The Group's balances with other state-controlled entities, including state-controlled banks in the PRC

	2009 RMB million	2008 RMB million
Cash and deposits at bank	3,174	3,354

Short-term bank loans and current portion of long-term bank loans	16,068	18,675
Long-term bank loans, less current portion	26,646	14,773

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45 Material related party transactions (continued)

(f) Transactions with other state-controlled entities (continued)

(iii) Guarantees from other state-controlled entities, including state-controlled banks in the PRC

	2009 RMB million	2008 RMB million
Guarantees on certain bank loans of the Group	-	1,082

(iv) In 2008, the issuance of the short-term financing bills of RMB2,000 million was underwritten by certain state-controlled banks in the PRC. No issuance of short-term financing bills was made during the year.

46 Retirement and housing benefits

(a) Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organised separately by the PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at the rates ranging from 10% to 25% (2008 and 2007: 9% to 24%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labour and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of the Group are assumed by these schemes.

In addition, the Group has established a supplementary defined contribution retirement scheme for the benefit of employees in accordance with relevant regulations in the PRC. In this connection, employees of the Group participate in a supplementary defined contribution retirement scheme whereby the Group is required to make contributions not exceeding one-twelfth of the prior year's total salaries.

(b) Housing benefits

The Group contributes on a monthly basis to housing funds organised by municipal and provincial governments based on certain percentages of the salaries of employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

In addition to the housing funds, certain employees of the Group are eligible to one of the following housing benefit schemes:

(i) Pursuant to a staff housing benefit scheme effective on September 2002, the Group agreed to pay lump sum housing allowances to certain employees who have not received quarters from CSAHC or the Group according to the relevant PRC housing reform policy, for subsidising their purchases of houses. An employee who quits prior to the end of the vesting benefit period is required to pay back a portion of the lump sum housing benefits determined on a pro-rata basis of the vesting benefit period. The Group has the right to effect a charge on the employee's house and to enforce repayment through selling the house in the event of default in repayment. Any shortfall in repayment would be charged to profit or loss.

(ii) The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are charged to profit or loss.

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47 Segmental reporting

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 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 47(c).

47 Segmental reporting (continued)

(a) Business segments

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 each of the years in the three-year period ended December 31, 2009 is set out below.

	Airline business			All other segments			Elimination			Unallocated*			Total	
	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million
ue from al customers	55,708	56,150	55,522	335	277	250	-	-	-	-	-	-	56,043	56,427
segment sales	-	4	-	674	506	484	(674)	(510)	(484)	-	-	-	-	-
table ent revenue	55,708	56,154	55,522	1,009	783	734	(674)	(510)	(484)	-	-	-	56,043	56,427
table ent (loss) before on	27	(5,031)	2,532	56	(68)	11	-	-	-	374	351	306	457	(4,748)
table ent assets	91,322	79,841		1,776	1,705		(159)	(131)		1,797	1,588		94,736	83,003
on to non- t ent assets g the year	17,558	12,801		66	47		-	-		13	29		17,637	12,877
table ent liabilities	80,435	72,519		1,202	1,167		(159)	(131)		-	-		81,478	73,555
segment nation														
st income	65	99	68	3	4	5	-	-	-	-	-	-	68	103
st expenses	1,446	1,923	2,286	51	64	46	-	-	-	-	-	-	1,497	1,987
ciation mortisation e year	5,954	5,724	5,501	85	94	94	-	-	-	-	-	-	6,039	5,818
rment losses ding impact &E, nce for ful debts rovision for	57	2,073	212	-	-	-	-	-	-	-	-	-	57	2,073

ories)

*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.

47 Segmental reporting (continued)

(b) Geographic information

	2009 RMB million	2008 RMB million	2007 RMB million
Domestic	47,645	45,972	44,785
Hong Kong, Macau and Taiwan	1,067	1,051	1,188
International *	7,331	9,404	9,799
	56,043	56,427	55,772

* Asian market accounted for approximately 74% (2008: 72%; 2007: 68%) of the Group's total international traffic revenue for the year ended December 31, 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.

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

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Revenue				
Reportable segment revenue		56,717	56,937	56,256
Elimination of intersegment revenues		(674)	(510)	(484)
Reclassification of expired sales in advance of carriage	(i)	350	276	273
Reclassification of business tax	(ii)	(1,591)	(1,415)	(1,644)
Consolidated revenue		54,802	55,288	54,401

47 Segmental reporting (continued)

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

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Profit				
Reportable segment profit/ (loss) before taxation		83	(5,099)	2,543
Unallocated amounts		374	351	306
Losses on lump sum housing benefits	(iii)	(26)	(26)	(26)
Revaluation of land use rights	(iv)	4	4	4
Adjustments arising from business combinations under common control	(v)	(7)	(7)	(6)
Capitalisation of exchange difference of specific loans	(vi)	3	51	57
Government grants	(vii)	1	2	1
Consolidated profit/(loss) before taxation		432	(4,724)	2,879

	Note	2009 RMB million	2008 RMB million
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	(iii)	66	92
Revaluation of land use rights	(iv)	(142)	(146)
Adjustments arising from business combinations under common control	(v)	1	8
Capitalisation of exchange difference of specific loans	(vi)	111	108
Government grants	(vii)	(39)	(40)
Effect of the above adjustments on taxation		17	17
Consolidated total assets		94,750	83,042

	2009 RMB million	2008 RMB million
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

Explanation of Responses:

47 Segmental information (continued)

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

Notes:

(i) In accordance with the PRC GAAP, expired sales in advance of carriage is recorded under non-operating income. Under IFRSs, such income is recognised as other net income.

(ii) In accordance with the PRC GAAP, business tax and surcharge is separately disclosed rather than deducted from revenue under IFRSs.

(iii) In accordance with the PRC GAAP , losses on the lump sum housing benefits executed by CSAHC are charged to retained profits as of January 1, 2001 pursuant to the relevant regulations. Under IFRSs, losses on lump sum housing benefits are charged to the consolidated statements of opeartions, which are spread over the vesting benefit periods stipulated by the relevant contracts.

(iv) In accordance with the PRC GAAP, land use rights are carried at revalued amounts. Under IFRSs, land use rights are carried at cost with effect from January 1, 2002, and accordingly, the unamortised surplus on revaluation of land use rights was reversed against shareholders' equity.

(v) In accordance with the PRC GAAP, business combinations under common control should be accounted for by applying the pooling-of-interest method. The carrying amount of the assets and liabilities in the books of subsidiaries acquired were used for consolidation. Under IFRSs, purchase accounting is adopted. The assets and liabilities of the subsidiaries are recorded at fair value.

(vi) In accordance with the PRC GAAP, exchange difference arising on translation of specific loans and related interest denominated in a foreign currency is capitalised as part of the cost of qualifying assets. Under IFRSs, such exchange difference should be recognised in profit or loss unless the exchange difference represents an adjustment to interest.

(vii) In accordance with the PRC GAAP, special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve", are credited to capital reserve, and amortised over the respective useful lives of corresponding assets. Under IFRSs, government grants relating to purchase of fixed assets are deducted from the cost of the related fixed assets.

48 Supplementary information to the consolidated cash flow statements

(a) Non cash transactions - acquisition of aircraft

During the year ended December 31, 2009, aircraft acquired under finance leases amounted to RMB2,171 million (2008: RMB281 million; 2007: RMB4,330 million).

48 Supplementary information to the consolidated cash flow statements (continued)

(b) Effect of the acquisition of Nan Lung Freight and Air Catering

The Group acquired a 51% equity interest in Nan Lung Freight and a 100% equity interest in Air Catering on August 31, 2007. Details are as follows:

	RMB million
Assets acquired:	
Property, plant and equipment, net	77
Inventories	6
Trade receivables	106
Other receivables	7
Cash and cash equivalents	54
	250
Liabilities assumed:	
Trade payables	30
Accrued expenses	10
Other liabilities	18
	58
Net identifiable assets before minority interests	192
Less: Minority interest	(80)
Net identifiable assets after minority interest	112
Satisfied by:	
Cash	112
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition:	
Cash consideration paid	(112)
Cash and cash equivalents acquired	54
Net outflow of cash and cash equivalents in respect of the acquisition	(58)

In the four months to December 31, 2007, these subsidiaries contributed profit of RMB3 million.

48 Supplementary information to the consolidated cash flow statements (continued)

(c) Effect of the disposal of GZ Aviation Hotel

The Group disposed of its 90% equity interest in GZ Aviation Hotel to CSAHC on August 31, 2007. Details are as follows:

	RMB million
Assets disposed of:	
Property, plant and equipment, net	72
Trade receivables	1
Other receivables	6
Cash and cash equivalents	1
	80
Liabilities disposed of:	
Other liabilities	4
Minority interest	8
Net identifiable assets and liabilities	68
Gain on disposal	7
	75
Satisfied by:	
Cash	75
Analysis of the net inflow of cash and cash equivalents in respect of the disposal:	
Cash consideration received	75
Cash and cash equivalents disposed of	(1)
Net inflow of cash and cash equivalents in respect of the disposal	74

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49 Financial risk management and fair values

Exposure to liquidity, interest rate, currency, jet fuel price risk and credit risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Liquidity risk

As at December 31, 2009, the Group's current liabilities exceeded its current assets by RMB28,441 million. For the year ended December 31, 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 resulted in a net decrease in cash and cash equivalents of RMB306 million.

In 2010 and thereafter, the liquidity of the Group is primarily dependent 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 December 31, 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 December 31, 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 directors are 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.

As at December 31, 2009, the Group's recognised financial liabilities, bank and other loans, short-term financing bills, finance lease obligations, trade and bills payables and amounts due to related companies as disclosed in Notes 28, 33, 34, 35, 36 and 38 respectively, are not materially different from the amount determined based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date). During the year ended December 31, 2009, the Group had derivatives settled gross in respect of the foreign exchange forward option contracts, of which the outflow amounted to RMB426 million (2008: RMB79 million) and inflow amounted to RMB399 million (2008: RMB25 million).

(b) Interest rate risk

The interest rates and maturity information of the Group's bank and other loans, short-term financing bills and finance lease obligations are disclosed in Notes 33, 34 and 35 respectively.

At December 31, 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and would have increased/decreased the Group's accumulated losses by approximately RMB238 million (2008: would have increased/decreased the Group's loss after tax and accumulated losses by approximately RMB186 million). Other components of consolidated equity would not be affected (2008: Nil) by the changes in interest rates.

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Explanation of Responses:

49 Financial risk management and fair values (continued)

(b) Interest rate risk (continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2008.

(c) Foreign currency risk

The Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the 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 leases (Note 35) and bank and other loans (Note 33) are denominated in foreign currencies, principally 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.

The Group also has exposure to foreign currency risk in respect of net cash inflow denominated in Japanese Yen from ticket sales in overseas branch office after payment of expenses. As at December 31, 2009, the Group had two outstanding foreign exchange forward option contracts of notional amount ranging from USD34 million to USD68 million (2008: USD64 million to USD128 million). The contracts are to buy USD1 million and USD1.5 million respectively (or USD2 million and USD3 million respectively if the spot exchange rate at settlement date is below certain specified strike rates) by selling Japanese Yen at certain specified rates on monthly settlement dates until the maturity of the contracts in 2011. Both contracts have a knock-out clause where the contracts early terminate upon the exchange rate of Japanese Yen to US dollar reaching a certain knock-out level. For the year ended December 31, 2009, a net gain of approximately RMB72 million (2008: a loss of RMB111 million) arising from changes in the fair value of these foreign exchange forward option contracts has been recognised in profit or loss. At December 31, 2009, the fair value of these foreign exchange forward option contracts was financial liabilities of approximately RMB44 million (2008: RMB116 million).

49 Financial risk management and fair values (continued)

(c) Foreign currency risk (continued)

As at December 31, 2009, it is estimated that if an appreciation/depreciation of 3.4% in exchange rate of US dollar against Japanese Yen, with all other variables held constant, would have increased/decreased the Group's profit after tax and decreased/increased the Group's accumulated losses by approximately RMB15 million/RMB16 million, respectively.

The exchange rate of Renminbi to US dollar was set by the PBOC and had fluctuated within a narrow band prior to July 21, 2005. Since then, a managed floating exchange rate regime based on market supply and demand with reference to a basket of foreign currencies has been used and the US dollar exchange rate has gradually declined against the Renminbi.

The following table indicates the instantaneous change in Group's profit or loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	2009		2008	
	Appreciation / (depreciation) of Renminbi against foreign currency	Decrease/(increase) on profit after tax and increase/(decrease) on accumulated losses RMB million	Appreciation/ (depreciation) of Renminbi against foreign currency	Increase/(decrease) on loss after tax and accumulated losses RMB million
United States Dollars	2%	(764)	2%	(606)
	(2)%	764	(2)%	606

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(d) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents and trade receivables.

Substantially all of the Group's cash and cash equivalents are deposited with PRC financial institutions, which management believes are of high credit quality.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlement Plan ("BSP"), a clearing scheme between airlines and sales agents organised by International Air Transportation Association which has insignificant credit risk to the Group. As at December 31, 2009, the balance due from BSP agents amounted to RMB631 million (2008: RMB641 million). The credit risk exposure to BSP and the remaining trade receivables balance are monitored by the Group on an ongoing basis and the allowance for impairment of doubtful debts is within management's expectations. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables is set out in Note 30.

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49 Financial risk management and fair values (continued)

(e) Jet fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Group. A reasonable possible increase or decrease of 10% (2008: 40%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB1,639 million (2008: RMB9,232 million). The sensitivity analysis indicates the instantaneous change in the Group's fuel cost that would arise assuming that the change in fuel price had occurred at the balance sheet date.

(f) Fair value

(i) Financial instruments carried at fair value.

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (Lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2009

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale equity securities:				
- Listed	93	-	-	93
Liabilities				
Derivative financial instruments:				
- Forward option contracts	-	44	-	44

During the year there were no significant transfers between instruments in Level 1 and Level 2.

Fair value of available-for-sale securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair value of forward option contracts is estimated by using Black Scholes Pricing Model, taking into account the terms and conditions of the forward option contracts. The major inputs used in estimation process include implied volatility, benchmark interest rates and foreign exchange spot and forward rates, which can be obtained from observable markets.

(ii) The economic characteristics of the Group's finance leases vary from lease to lease. It is impractical to compare such leases with those prevailing in the market within the constraints of timeliness and cost for the purpose of estimating the fair value of such leases.

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49 Financial risk management and fair values (continued)

(f) Fair value (continued)

(iii) Other non-current investments represent unlisted equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be measured reliably.

(iv) Amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose fair values of these balances.

(v) Loans, trade and other payables, bills payable and short-term financing bills are carried at amounts not materially different from their fair values as at December 31, 2009 and December 31, 2008.

50 Commitments

(a) Capital commitments

Capital commitments outstanding at December 31, 2009 not provided for in the financial statements were as follows:

	2009 RMB million	2008 RMB million
Commitments in respect of aircraft and flight equipment		
- authorised and contracted for	57,890	75,639
- authorised but not contracted for	7,953	-
	65,843	75,639
Other commitments		
- authorised and contracted for	462	884
- authorised but not contracted for	1,399	1,958
	1,861	2,842
	67,704	78,481

As at December 31, 2009, the Group had on order 199 aircraft and certain flight equipment, scheduled for deliveries in 2010 to 2015, and deposits of RMB14,792 million have been made towards the purchase of these aircraft and related equipment. As at December 31, 2009, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and flight equipment are as follows:

	2009 RMB million	2008 RMB million
2009	-	15,777
2010	16,404	19,167
2011	17,482	15,142
2012	17,421	13,893
2013	9,845	7,170
2014 and afterwards	4,691	4,490
	65,843	75,639

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50 Commitments (continued)

(a) Capital commitments (continued)

As at December 31, 2009, the Group's attributable share of the capital commitments of jointly controlled entities was as follows:

	2009 RMB million	2008 RMB million
Authorised and contracted for	2	1
Authorised but not contracted for	40	26
	42	27

(b) Operating lease commitments

As at December 31, 2009, the total future minimum lease payments under non-cancellable operating leases in respect of properties, aircraft and flight equipment were payable as follows:

	2009 RMB million	2008 RMB million
Payments due		
Within 1 year	4,028	4,186
After 1 year but within 5 years	15,107	15,689
After 5 years	11,231	14,455
	30,366	34,330

51 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 an indemnification agreement dated May 22, 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 December 31, 2009, an aggregate of personal bank loans of RMB60 million (2008: RMB13million), under these guarantees, were drawn down from the banks.

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52 Non-adjusting post balance sheet events

(a) On March 8, 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 HKD2.73 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 HKD2.73 per H share.

The above placement and subscription agreements were approved in the Extraordinary General Meeting and the respective Meetings of shareholders of A and H shares on April 30, 2010 and are pending approval from the relevant security regulatory authorities.

(b) On January 20, 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 USD77 million. Such catalogue price includes price for airframe and engines.

(c) In accordance with a Transfer Agreement dated September 28, 2009 and a Supplemental Transfer Agreement dated December 29, 2009 entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU, a jointly controlled entity of the Company. As at December 31, 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.

53 Immediate and ultimate controlling party

As at December 31, 2009, the directors of the Company consider the immediate parent and ultimate controlling party of the Group to be CSAHC, a state-owned enterprise established in the PRC. CSAHC does not produce financial statements available for public use.

54 Accounting judgements and estimates

The Groups' financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

(a) Impairment of long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36, Impairment of Assets. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgements relating to the level of traffic revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of traffic revenue and amount of operating costs.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

55 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 3.

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56 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2009 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
IAS 24 (Revised), Related party disclosures	January 1, 2011
IFRS 9, Financial instruments	January 1, 2013

57 Subsidiaries

The particulars of the Group's principal subsidiaries as of December 31, 2009 are as follows:

Name of company	Place of establishment/ operation	Registered capital		Proportion of ownership interest held by the Company	Principal activities
Southern Airlines Shantou Airlines Company Limited (a)	PRC	RMB	280,000,000	60%	Airline
Chongqing Airlines Company Limited (a)	PRC	RMB	1,200,000,000	60%	Airline
Zhuhai Airlines Company Limited (a)	PRC	RMB	250,000,000	60%	Airline
Xiamen Airlines Company Limited (a)	PRC	RMB	1,200,000,000	60%	Airline
Guizhou Airlines Company Limited (a)	PRC	RMB	80,000,000	60%	Airline
Nan Lung International Freight Limited	HK	HKD	3,270,000	51%	Freight services
Guangzhou Baiyun International Logistic Company Limited (a)	PRC	RMB	50,000,000	61%	Logistics operations
China Southern Airlines Group Air Catering Company Limited (a)	PRC	RMB	10,200,000	100%	Air catering
Guangzhou Nanland Air Catering Company Limited ("Nanland") (b)	PRC	RMB	120,000,000	55%	Air catering
China Southern West Australian Flying College Pty Limited	Australia	AUD	100,000	91%	Pilot training services
Xinjiang Civil Aviation Property Management Limited (a)	PRC	RMB	251,332,832	51.8%	Property management
Beijing Southern Airlines Ground Services Company Limited (a)	PRC	RMB	18,000,000	100%	Provision of airport ground services

(a) These subsidiaries are PRC limited liability companies.

(b) This subsidiary is Sino-foreign equity joint venture company established in the PRC.

(c) Certain of the Group’s subsidiaries are PRC joint ventures which have limited lives pursuant to the PRC law.

58 Associates and jointly controlled entities

The particulars of the Group's principal associates and jointly controlled entities as of December 31, 2009 are as follows:

Name of company	Place of establishment/ operation	Group's effective interest	Proportion of ownership interest held by The Company	Proportion of ownership interest held by Subsidiaries	Principal activities
Guangzhou Aircraft Maintenance Engineering Company Limited (a)	PRC	50%	50%	-	Provision of aircraft repair and maintenance services
Southern Airlines Group Finance Company Limited	PRC	34%	21.1%	12.9%	Provision of financial services
Sichuan Airlines Corporation Limited	PRC	39%	39%	-	Airline
MTU Maintenance Zhuhai Co., Limited (a)	PRC	50%	50%	-	Provision of engine repair and maintenance services
Zhuhai Xiang Yi Aviation Technology Company Limited (a)	PRC	51%	51%	-	Provision of flight simulation services
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited (a)	PRC	50%	50%	-	Sales of duty free goods in flight

(a) These are jointly controlled entities.

(b) Certain of the Group's jointly controlled entities are PRC joint ventures which have limited lives pursuant to the PRC law.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA SOUTHERN AIRLINES COMPANY LIMITED

/s/ Si Xian Min
Name: Si Xian Min

Title: Chairman of the Board of Directors

Date: May 28, 2010

Index to Exhibits

Exhibit No.	Description of Exhibit
1.1	Restated and Amended Articles of Association of China Southern Airlines Company Limited (1)
4.1	Form of Director's Service Agreement (2)
4.2	Form of Non-Executive Director's Service Agreement (3)
4.3	Aircraft General Terms Agreement entered into by and between Airbus S.A.S. and China Southern Airlines Company Limited on January 20, 2010 *
4.4	A320 Family Aircraft Purchase Agreement entered into by and between the Company and Airbus SNC on January 20, 2010 *
4.5	A Shares Subscription Agreement entered into by and between the Company and CSAHC on December 10, 2008(4)
4.6	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on December 10, 2008(5)
4.7	A Shares Subscription Agreement entered into by and between the Company and CSAHC on March 8, 2010
4.8	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on March 8, 2010
4.9	Transfer Agreement entered into by and among the Company, CSAHC, MTU and MTU Aero Engines GmbH on September 28, 2009
4.10	Transfer Agreement for the 50% Equity Interest in MTU between CSAHC and the Company on September 28, 2009
8.1	Subsidiaries of China Southern Airlines Company Limited
11.1	Code of Ethics (included in Exhibit 4.1)
12.1	Section 302 Certification of President
12.2	Section 302 Certification of Chief Financial Officer
13.1	Section 906 Certification of President
13.2	Section 906 Certification of Chief Financial Officer

* Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.

(1) Incorporated by reference to the Exhibit 1.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(2) Incorporated by reference to the Exhibit 4.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2005 filed with the Securities and Exchange Commission on June 30, 2006

(3) Incorporated by reference to the Exhibit 4.2 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2005 filed with the Securities and Exchange Commission on June 30, 2006

(4) Incorporated by reference to the Exhibit 4.8 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(5) Incorporated by reference to the Exhibit 4.9 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009