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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 001-14660

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**中国南方航空股份有限公司**  
(Exact name of Registrant as specified in its charter)

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**CHINA SOUTHERN AIRLINES COMPANY LIMITED**  
(Translation of Registrant's name into English)

**THE PEOPLE'S REPUBLIC OF CHINA**  
(Jurisdiction of incorporation or organization)

**68 QI XIN ROAD  
GUANGZHOU, 510403  
PEOPLE'S REPUBLIC OF CHINA**  
(Address of principal executive offices)

**Mr. Xie Bing**

Telephone: +86 20 86124462

E-mail: [ir@csair.com](mailto:ir@csair.com)

Fax: +86 20 86659040

Address: 68 QI XIN ROAD

GUANGZHOU, 510403

**PEOPLE'S REPUBLIC OF CHINA**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Ordinary H Shares of par value RMB1.00 per share represented by American Depositary Shares	ZNH	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None.  
(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 11,054,157,546 A Shares of par value RMB1.00 per share and 4,275,144,849 H Shares of par value RMB1.00 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13 (a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.  Yes  No

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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## FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements appear in a number of different places in this Annual Report. A forward-looking statement is usually identified by the use in this Annual Report of certain terminology such as “estimate”, “project”, “expect”, “intend”, “believe”, “plan”, “anticipate”, “may”, or their negatives or other comparable words. Also look for discussions of strategy that involve risks and uncertainties. Forward-looking statements include statements regarding the outlook for our future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings (if any), the adequacy of reserves, and other business plans. Forward-looking statements are, by their nature, subject to inherent risks and uncertainties, some of which are beyond our control, and are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. We caution you that a number of risks and assumptions could cause actual outcomes to differ, or differ materially, from those expressed in any forward-looking statements.

These risks and assumptions, in addition to those identified under Item 3, “Key Information—Risk Factors,” include:

- general economic and business conditions in markets where our Company operates, including changes in interest rates;
- the effects of competition on the demand for and price of our services;
- natural phenomena;
- the impact of unusual events on our business and operations, including COVID-19 and other pandemics, and the effect of governmental actions taken in response;
- actions by government authorities, including changes in government regulations, and changes in CAAC’s regulatory policies;
- our relationship with China Southern Air Holding Company Limited;
- uncertainties associated with potential legal proceedings;
- technological development;
- our ability to attract key personnel and attract new talent;
- future decisions by management in response to changing conditions;
- the Company’s ability to execute prospective business plans;
- the availability of qualified flight personnel and airport facilities; and
- misjudgments in the course of preparing forward-looking statements.

Our Company advises you that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to our Company, our Group and persons acting on their behalf.

## INTRODUCTORY NOTE

In this Annual Report, unless the context indicates otherwise, “we”, “us”, “our”, “the Company” and “our Company” refer to China Southern Airlines Company Limited, a joint stock company incorporated in China on March 25, 1995, our “Group” means our Company and our consolidated subsidiaries, and “CSAH” means China Southern Air Holding Company Limited, our Company’s parent company which directly and indirectly held 60.42% interest in our Company as of April 23, 2021.

References to “China” or the “PRC” are to the People’s Republic of China, excluding, for purpose of this Annual Report, Hong Kong, Macau and Taiwan. References to “Renminbi” or “RMB” are to the currency of China, references to “U.S. dollars”, “\$” or “US\$” are to the currency of the United States of America (the “U.S.” or “United States”), and references to “HK\$” are to the currency of Hong Kong. References to the “Chinese government” are to the national government of China. References to “Hong Kong” or “Hong Kong SAR” are to the Hong Kong Special Administrative Region of the PRC. References to “Macau” or “Macau SAR” are to the Macau Special Administrative Region of the PRC.

Our Group presents our consolidated financial statements in Renminbi. The consolidated financial statements of our Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term include all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”).

Solely for the convenience of the readers, this Annual Report contains conversions of certain Renminbi into U.S. dollars at the rate of US\$1.00 = RMB6.5249, which was the average of the buying and selling rates as quoted by the People’s Bank of China at the close of business on December 31, 2020. No representation is made that the Renminbi amounts or U.S. dollar amounts included in this Annual Report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. Any discrepancies in the tables included herein between the amounts listed and the totals are due to rounding.

## GLOSSARY OF AIRLINE INDUSTRY TERMS

In this Annual Report, unless the context indicates otherwise, the following terms have the respective meanings set forth below.

### *Capacity*

“available seat kilometers” or “ASK”	the number of seats made available for sale multiplied by the kilometers flown
“available ton kilometers” or “ATK”	the tons of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometers flown

### *Traffic*

“revenue passenger kilometers” or “RPK”	i.e. passenger traffic volume, the number of passengers carried multiplied by the kilometers flown
“revenue ton kilometers” or “RTK”	i.e. total traffic volume, the load (passenger and cargo) in tons multiplied by the kilometers flown
“revenue ton kilometers-cargo” or “RFTK”	i.e. cargo and mail traffic volume, the load for cargo and mail in tonnes multiplied by the kilometers flown
“revenue ton kilometers-passenger”	the load for passenger in tons multiplied by the kilometers flown
“ton”	a metric ton, equivalent to 1,000 kilograms

### *Yield*

“yield per RFTK”	revenue from cargo operations divided by RFTK
“yield per RPK”	revenue from passenger operations divided by RPK
“yield per RTK”	revenue from airline operations (passenger and cargo) divided by RTK

### *Cost*

“operating cost per ATK”	operating expenses divided by ATK
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### *Load Factors*

“overall load factor”	RTK expressed as a percentage of ATK
“passenger load factor”	RPK expressed as a percentage of ASK

### *Utilization*

“utilization rates”	flight hours that aircraft can service during specified time
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### *Equipment*

“expendables”	aircraft parts that are ordinarily used up and replaced with new parts
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“rotables”	aircraft parts that are ordinarily repaired and reused
<i>Others</i>	
“ADS”	American Depositary Share
“A Shares”	Shares issued by our Company to investors in the PRC for subscription in RMB, with par value of RMB1.00 each
“Board”	board of directors of the Company
“CAAC”	Civil Aviation Administration of China
“CAOSC”	China Aviation Oil Supplies Company
“CSAH”	China Southern Air Holding Company Limited
“CSRC”	China Securities Regulatory Commission
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“H Shares”	Shares issued by our Company, listed on The Stock Exchange of Hong Kong Limited and subscribed for and traded in Hong Kong dollars, with par value of RMB1.00 each
“Nan Lung”	Nan Lung Holding Limited (a wholly-owned subsidiary of CSAH)
“NDRC”	National Development and Reform Commission of China
“SAFE”	State Administration of Foreign Exchange of China
“SA Finance”	Southern Airlines Group Finance Company Limited
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“SEC”	United States Securities and Exchange Commission
“SPVs”	special purpose vehicles exclusively set up by the Company and its subsidiaries for leased aircraft

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. SELECTED FINANCIAL DATA

The following tables present selected financial data for the five-year period ended December 31, 2020. The selected consolidated income statement data (other than ADS data) for the three-year period ended December 31, 2018, 2019 and 2020 and selected consolidated statement of financial position data as of December 31, 2019 and 2020 are derived from the audited consolidated financial statements of us, included elsewhere in this Annual Report. The selected consolidated income statement data (other than ADS data) for the years ended December 31, 2016 and 2017 and selected consolidated statement of financial position data as of December 31, 2016, 2017 and 2018 are derived from our audited consolidated financial statements that are not included in this Annual Report.

Moreover, the selected financial data should be read in conjunction with the rest of the Annual Report, including our audited consolidated financial statements together with accompanying notes and “Item 5. Operating and Financial Review and Prospects” which are included elsewhere in this Annual Report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRSs.

We have initially applied IFRS 16 on January 1, 2019 and IFRS 15 and IFRS 9 on January 1, 2018. According to the adopted transition plan, the comparative data has not been restated.

	2020 US\$	2020 RMB	Year ended December 31,			2016 RMB
			2019 RMB	2018 RMB	2017 RMB	
(in million, except per share and per ADS data)						
<b>Consolidated Income Statement Data</b>						
Operating revenue	14,186	92,561	154,322	143,623	127,806	114,981
Operating expenses	(16,722)	(109,111)	(148,608)	(140,242)	(123,098)	(106,204)
Operating (loss)/profit	(1,818)	(11,864)	10,838	8,819	9,156	12,612
(Loss)/profit before income tax	(2,329)	(15,195)	4,055	4,364	8,874	7,661
(Loss)/profit for the year	(1,813)	(11,827)	3,084	3,364	6,898	5,898
(Loss)/profit attributable to:						
Equity shareholders of our Company	(1,662)	(10,847)	2,640	2,895	5,961	5,044
Non-controlling interests	(150)	(980)	444	469	937	854
Basic and diluted (loss)/earnings per share	(0.12)	(0.77)	0.22	0.27	0.60	0.51
Basic and diluted (loss)/earnings per ADS (1)	(5.91)	(38.58)	10.76	13.50	30.03	25.69
<b>Other Financial Data</b>						
Cash dividends declared per share	—	—	—	0.05	0.10	0.10

- (1) Basic and diluted earnings per share have been computed by dividing profit attributable to our equity shareholders by the weighted average number of shares in issue. Basic and diluted earnings per ADS have been computed as if all of our issued or potential ordinary shares, including A shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 50 H shares.

	2020 US\$	2020 RMB	As of December 31,		2017 RMB	2016 RMB
			2019 RMB	2018 RMB		
<b>Consolidated Statement of Financial Position Data:</b>						
Cash and cash equivalents	3,896	25,419	1,849	6,928	6,826	4,152
Total current assets, excluding cash and cash equivalents	2,079	13,566	14,889	17,144	11,058	9,612
Property, plant and equipment, net	13,203	86,146	84,788	170,692	158,926	146,746
Right-of-use assets	23,152	151,065	153,211	—	—	—
Total assets	50,021	326,383	306,928	246,949	218,718	200,442
Current borrowings	6,146	40,099	37,543	38,741	27,568	26,746
Current portion of obligations under finance leases	—	—	—	9,555	8,341	8,695
Non-current borrowings	5,844	38,134	13,637	15,676	20,719	18,758
Obligations under finance leases, excluding current portion	—	—	—	62,666	59,583	53,527
Lease liabilities	18,577	121,213	134,074	—	—	—
Total equity	13,047	85,131	77,329	78,469	62,543	54,976
Number of shares (in million)	15,329	15,329	12,267	12,267	10,088	9,818

### Selected Operating Data

The operating data and comparison below is calculated and disclosed in accordance with the statistical standards, which have been implemented by our Group since January 1, 2001. See “Glossary of Airline Industry Terms” at the front of this Annual Report for definitions of certain terms used herein.

	Year ended December 31,				
	2020	2019	2018	2017	2016
<b>Capacity</b>					
ASK (million)	214,722	344,062	314,421	280,646	255,992
ATK (million)	33,892	46,434	42,728	38,332	34,980
Kilometers flown (thousand)	1,304,667	1,875,520	1,762,920	1,623,014	1,504,310
Hours flown (thousand)	2,077	2,951	2,773	2,567	2,375
Number of landing and take-offs	822,459	1,117,880	1,069,430	1,010,460	959,110
<b>Traffic</b>					
RPK (million)	153,440	284,921	259,194	230,697	206,106
RTK (million)	20,805	32,625	30,334	27,321	24,387
Passengers carried (thousand)	96,856	151,632	139,885	126,299	114,619
Cargo and mail carried (tons)	1,460,825	1,763,560	1,732,280	1,672,162	1,612,550
<b>Load Factors</b>					
Passenger load factor (RPK/ASK) (%)	71.5	82.8	82.4	82.2	80.5
Overall load factor (RTK/ATK) (%)	61.4	70.3	71.0	71.3	69.7
<b>Yield</b>					
Yield per RPK (RMB)	0.46	0.49	0.49	0.49	0.50
Yield per RFTK (RMB)	2.27	1.27	1.33	1.30	1.16
Yield per RTK (RMB)	4.18	4.54	4.55	4.46	4.50
<b>Fleet</b>					
- Boeing	469	467	460	407	372
- Airbus	383	375	354	321	304
- Others	15	20	26	26	26
Total aircraft in service at period end	867	862	840	754	702
Average daily utilization rate (hours per day)	7.02	9.96	9.73	9.79	9.53

#### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

#### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

#### D. RISK FACTORS

##### Risks Relating to our Business

*The outbreak and global spread of COVID-19 and the persistence of the resulting pandemic have had a material adverse effect on our business. The duration and severity of the pandemic, and similar public health threats or a large scale natural disaster we may face in the future, could result in additional adverse effects on our business.*

An outbreak of a disease, a similar public health threat or a large-scale natural disaster that affects travel demand, travel behavior, or travel restrictions, could have a material adverse impact on our business, financial condition and operating results. In 2020, the outbreak and rapid spread of COVID-19 in China and worldwide, the persistence of the resulting pandemic, as well as the measures governments and private parties implemented to stem the spread of this pandemic, have had, and will continue to have, a material adverse effect on the demand for air travel in China and worldwide and consequently on our business, results of operations and financial condition.

- *The demand in air travel have decreased and may remain depressed due to the COVID-19 pandemic and the measures taken by governments around the world to contain the pandemic.*

Following the onset of the COVID-19 pandemic in China in January 2020, the central and local governments of China implemented strict traveling restrictions, quarantines and advisories and “stay at home” orders which dissuaded or restricted air travel. During the first quarter and early second quarter of 2020, a significant number of employees in public and private sectors in China were instructed or advised to work from home and/or were otherwise dissuaded or restricted from air travelling. Business conventions and conferences, concerts and similar entertainment events were cancelled, and many popular tourist destinations were closed. As a result, the demand for domestic air travel declined at a rapid pace in China, which is our primary market. In March 2020, the World Health Organization declared COVID-19 as a global pandemic, and governments around the world started implementing various measures, including enhanced screenings, quarantine requirements, travel restrictions and border controls, in connection with the COVID-19 pandemic. On March 26, 2020, the CAAC placed restrictions on international flights from and to China and limited the number of international routes and flights each airline in China could operate. Governments of many countries that are markets for our business placed similar restrictions, some of which are still effective as of the date of this Annual Report. Due to these measures, the international travel demands reduced significantly from the second quarter of 2020 and remained depressed, which in turn had a significant adverse impact on our international route business. As a result of such reduced demand of domestic and international air travel, our revenues, results of operations and financial condition of 2020 were materially adversely affected.

The Group’s RTK for the year ended December 31, 2020 decreased by 36.23% as compared to 2019. In 2020, total passenger capacity (measured by ASK) and RPK of the Company decreased by 37.59% and 46.15%, respectively, as compared to last year. Passenger capacity and RPK for international routes decreased by 80.63% and 84.88%, respectively, as compared to last year. Revenue per seat kilometer also reduced significantly. As a result, the Company recorded a loss in the operating results for the year of 2020.

- ***The mitigation measures we implemented or may consider in the future in response to the pandemic may have negative consequences with respect to our business and operations.***

In response to the adverse changes in operational environment caused by the outbreak of the COVID-19 pandemic, we have taken steps to mitigate the effects on our business, which themselves may have negative consequences with respect to our business and operations. In 2020, we implemented various measures to adjust our operational capacity, which included negotiating with aircraft manufacturers to explore the possibility of postponing the delivery of new aircraft, seizing market opportunities to adopt various measures to increase passenger and freight revenue, strengthening our cost control and actively seeking policy support from the government. In addition, we intensified our efforts to fully implement precautionary measures, including conducting in-flight checks of passengers’ body temperature and disinfection of aircraft, in accordance with rules and guidelines issued by relevant government authorities, in order to prevent the potential spread of COVID-19 through flights, contact points and passengers. Those precautionary measures increased our operational cost. Furthermore, we have waived air travel booking change fees and cancellation fees chargeable to customers to a broad extent in accordance with government requirements, which have negatively affected our revenues. The mitigation and cost-saving measures that we implemented in 2020, or may consider in the future, have not made up, and may not in the future make up for our revenue loss as a result of the decreased ticket sales due to the pandemic.

- ***The overall situation of the pandemic remains fluid and it is difficult to predict the duration and development of the pandemic as well as other potential impact it may have on our business.***

Since the second quarter of 2020, certain of the abovementioned travel restrictions were eased in some places, especially in China, where the pandemic is under effective control, and the demand for air travel has been gradually increasing but has not returned to the pre-pandemic level. The ongoing pandemic, including resurgences of COVID-19 in various regions and the appearance of new variants of the virus, has resulted, and may continue to result, in the reinstatement of the restrictions that were eased. As of the date of this Annual Report, the pandemic has been effectively controlled in China. With several effective vaccines for COVID-19 approved in China and worldwide and plans for vaccinations rolling out in several countries, the pandemic control overseas has also showed a positive trend. However, at this time, we are not able to predict the exact timing and pace of the recovery of the demand for air travel, as it is uncertain how long conditions related to the pandemic will persist, when effective vaccines will be broadly available and vaccination will be widespread globally, when travel advisories and restrictions will be completely lifted, what additional measures may be introduced by governments or private parties and what effect any such additional measures may have on air travel and our business. The overall situation remains fluid, and it is impossible to predict the timing of future material developments and whether they will occur in the near, medium or long term. Depending on the duration of the pandemic, such negative developments may occur over the entirety of the pandemic.

It is also uncertain the extent to which the COVID-19 pandemic may result in permanent changes to our customers' behavior and perception of travel, including a permanent reduction in business travel as a result of increased usage of "virtual" meetings and "teleconferencing" products and more broadly, a general reluctance to travel due to the precautionary measures implemented for air traveling, such as body temperature checking, face covering and quarantine requirements. The widespread consumer confidence in air travel may not return until large-scale vaccination has occurred, and a change in customer's behavior and perception of travel as mentioned above could have a material impact on our business.

As discussed above, the extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments which are highly uncertain and cannot be predicted at this time. In addition, an outbreak of another disease or similar public health threat that affects travel demand, travel behavior or travel restrictions could result in additional adverse impact on our business, financial condition and operating results.

***We are indirectly majority owned by the Chinese government, which may exert influence in a manner that may conflict with the interests of holders of ADSs, H Shares and A Shares.***

CSAH, an entity wholly-owned by the Chinese government, directly and indirectly held and exercised the rights of ownership of 60.42% of our equity stake as of April 23, 2021. The interests of the Chinese government in us and in other Chinese airlines could conflict with the interests of the holders of the ADSs, H Shares and A Shares. The public policy considerations of the Chinese government in regulating the Chinese commercial aviation industry could also conflict with its indirect ownership interest in us. In addition, subject to the approval of our shareholder, we may accept further capital injections from CSAH through non-public subscriptions from time to time to fulfill capital needs in our business operation or business development, which may dilute the stakes of other holders of ADSs, H Shares and A Shares. On April 15, 2020, a total number of 608,695,652 of H Shares were issued at HK\$5.75 per share to Nan Lung, a wholly-owned subsidiary of CSAH, and on June 17, 2020, a total number of 2,453,434,457 A Shares were issued at RMB5.21 per share to CSAH. After these two issuances, CSAH's interest in our Company, held directly or indirectly through Nan Lung, has been increased from 50.54% to 60.42%.

***Due to a high degree of operating leverage and high fixed costs, a decrease in our revenue could result in a disproportionately higher decrease in our profit.***

The airline industry is generally characterized by a high degree of operating leverage. In addition, due to high fixed costs, the expenses relating to the operation of any flight do not vary proportionately with the number of passengers carried, while revenue generated from a flight are directly related to the number of passengers carried and the fare structure of such flight. Accordingly, a decrease in revenue could result in a disproportionately higher decrease in our profit.

***The results of our operations are also significantly exposed to fluctuations in foreign exchange rates.***

As we have substantial liabilities denominated in foreign currencies, our results of operations are significantly affected by fluctuations in foreign exchange rates, particularly fluctuations in the Renminbi-U.S. dollar exchange rate. Net exchange gain of RMB3,485 million was recorded in 2020, as compared with a net exchange loss of RMB1,477 million in 2019. Net exchange gain was primarily attributable to the exchange difference arising from the translation of lease liabilities and borrowing balances denominated in USD resulting from the appreciation of RMB against USD.

***We have significant committed capital expenditures in the next three years, and may face challenges and difficulties in maintaining our liquidity.***

We have, and will continue to have a substantial amount of debt, lease and other liabilities in the future. As of December 31, 2020, our current liabilities exceeded our current assets by RMB56,696 million. We generated net cash inflow from operating activities of RMB31,175 million and RMB2,698 million for the years ended December 31, 2019 and 2020, respectively. However, our substantial indebtedness and other liabilities may negatively impact our liquidity in the future. In addition, we have significant committed capital expenditures in the next three years, mainly due to aircraft acquisition. In 2020 and thereafter, our liquidity is primarily dependent on our ability to maintain adequate cash inflow from operations to meet our debt obligations as they fall due, and our ability to obtain adequate external financing to meet our committed future capital expenditures. If our operating cash flow is materially and adversely affected by factors, such as increased competition, significantly reduced demand for our services, or significantly increased jet fuel prices, our liquidity would be materially and adversely affected. Moreover, we may not be able to meet our debt obligations as they fall due and commit further capital expenditures if certain assumptions about the availability of external financing on acceptable terms are inaccurate. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

As of December 31, 2020, we had committed banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB315,452 million, of which approximately RMB228,188 million was unutilized. Our directors believe that sufficient financing will be available to our Group when needed. However there can be no assurance that such loan financing will be available on terms acceptable to our Group or at all.

Further, our US dollar-denominated lease liabilities bear interest at fluctuating interest rates, primarily based on the London interbank offered rate (LIBOR). LIBOR tends to fluctuate based on general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. We have entered into interest rate swaps and cross currency swaps to mitigate our interest rate risk. However, our interest expense for any particular period may still fluctuate based on LIBOR and other variable interest rates. To the extent the interest rates applicable to our floating rate debt significantly increase, our interest expense may increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR), or FCA, announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. On March 5, 2021, FCA in an announcement formally confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative after 2021. The announced timeline for the cessation of US dollar LIBOR settings are (i) immediately after December 31, 2021, in the case of the 1-week and 2-month U.S. dollar settings; and (ii) immediately after June 30, 2023, in the case of the remaining U.S. dollar settings. To mitigate the possible impact of this change, various regulators have proposed alternative reference rates. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. On August 16, 2019, the People's Bank of China announced a plan to improve and reform the loan prime rate (LPR) mechanism, which requires banks to adopt interest rates based on the LPR for the newly issued loans from the date of the announcement. In December 2019, the People's Bank of China issued another announcement which requires that, starting from March 1, 2020, financial institutions should negotiate with their clients who have outstanding floating interest rate loans to replace the existing interest rates of such loans which are based on the benchmark lending rates to interest rates based on the LPRs. Such negotiation and replacement is required to be completed before August 31, 2020. While the intention of such plan is to reduce borrowing costs by better reflecting market changes on interest rates, it is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the PRC, the United States or elsewhere. See also the discussion of interest rate risk in Part I, Item 11. Quantitative and Qualitative Disclosures About Market Risk –“Interest Rate Risk.”

***CSAH will continue to be our controlling shareholder, and our interests may conflict with those of CSAH. CSAH and certain of its affiliates will continue to provide certain important services to our Group. Any disruption of the provision of services by CSAH or its affiliates could affect our operations and financial condition.***

CSAH will continue to be our controlling shareholder. CSAH and certain of its affiliates will continue to provide certain important services to us, including advertising services, property management services, leasing of properties and aircraft and financial services. The interests of CSAH may conflict with those of our Group. In addition, any disruption of the provision of services by CSAH's affiliates or a default of CSAH on its obligations owed to our Group could affect our operations and financial condition. In particular, as part of our cash management system, subject to the approval of our independent shareholders (being shareholders other than CSAH or an affiliate of CSAH), we periodically place certain amount of demand deposits with SA Finance, a PRC authorized financial institution controlled by CSAH. We have taken certain measures to monitor the fund flows between us and SA Finance and the placement of funds by SA Finance. Such monitoring measures may help to keep our deposits with SA Finance safe. In addition, we have received a letter of undertakings from CSAH dated March 31, 2009, in which, among other things, CSAH warranted that our deposits and loans with SA Finance were secure and that SA Finance would continue to operate in strict compliance with the relevant rules and regulations. However, the deposits may be exposed to risks associated with SA Finance's business over which we do not have control. As of December 31, 2019 and 2020, we had deposits of RMB711 million and RMB9,092 million, respectively, with SA Finance.

***Unfavorable economic conditions, in China and globally, could affect the demand for air travel.***

Our business and results of operations are affected by general factors affecting the industry that we operate in. Such general factors include, but are not limited to, China's overall economic growth, changing government policies and the demand for air travel. In addition, the airline industry is highly cyclical, and the level of demand for air travel is affected by the global and domestic economic conditions. The Chinese economy has slowed down in recent years compared to the previous decade, and this trend is likely to continue. In particular, the outbreak of the COVID-19 pandemic since January 2020 has adversely affected the economic conditions in China and globally and disrupted air travel. We expect such adverse impact will continue in 2021. See "Item 3. Key Information – Risk Factors – The outbreak and global spread of COVID-19 and the persistence of the resulting pandemic have had a material adverse effect on our business. The duration and severity of the pandemic, and similar public health threats or a large scale natural disaster we may face in the future, could result in additional adverse effects on our business". During periods of unfavorable or volatile economic conditions, demand for air travel can be impacted as business and leisure travelers choose not to travel, seek alternative forms of transportation for short trips or conduct business through videoconferencing. Long-term unfavorable economic conditions would reduce the demand of air travel and adversely affect our business, financial condition and results of operations. Chinese macroeconomic controls, such as financing adjustments, credit adjustments, taxation policies, price controls and exchange rate policies would also present unexpected changes to the aviation industry, which may in turn adversely affect our business, financial condition and results of operations.

The global macroeconomic environment is also facing challenges. In 2018 and 2019, the global economy generally continued to recover, yet with the emergence of trade protectionism, the growth of the global economy has slowed down. The outbreak of COVID-19 pandemic in 2020 also had an adverse impact on global economic growth. If the global macroeconomic environment worsens, or trade disputes and conflicts continue, the demand of international travel may decrease, and our operations and financial condition may be materially and adversely affected.

Furthermore, the exit of the United Kingdom, or UK, from the Europe Union, or EU, brings uncertainties to the regional economy of Europe and the airline businesses in UK and Europe. On January 31, 2020, UK formally withdrew from the EU, and entered into the transition period commencing on February 1, 2020 and ending on December 31, 2020. On December 24, 2020, UK and EU agreed on the EU-UK Trade and Cooperation Agreement, or the TCA, which has been effective from January 1, 2020 and covers a broad range of subjects, including air transport and aviation safety. As of the date of this Annual Report, because the existing bilateral air service agreement between UK and China governing the traffic rights continues to apply, the implementation of the TCA had not had a material impact on our business, but the long term impact of the TCA remains unclear. We cannot guarantee the exit of the UK from EU will not have a negative impact on our operations, financial condition and results of operations in the future.



***Lack of adequate documentation for land use rights and ownership of buildings may subject us to challenges and claims by third parties.***

Although China has established a system for registration and transfer of land use rights and real property related rights, some of those rights can not be registered in such system due to historical reasons. We lease certain properties and buildings, which are located in Guangzhou, Wuhan, Haikou and other PRC cities from CSAH. However, CSAH lacks adequate documentation evidencing CSAH's rights to such land and buildings, and, consequently, the lease agreements between CSAH and us for such land have not been registered with the relevant authorities. As a result, such lease agreements may not be enforceable against a third party. Lack of adequate documentation for land use rights and ownership of buildings may subject us to challenges and claims by third parties with respect to our use of such land and buildings.

As of the date of this Annual Report, we had occupied all of the land and buildings mentioned above without any challenge or claim by third parties. However, we cannot assure that we would not be subject to any challenges in the future. If any challenges to the property ownership or other claims are successful, our operation and business may be materially and adversely affected. CSAH has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use such land and buildings.

***Any discontinuity or disruption in the direct flight arrangement between Taiwan and Mainland China may negatively affect our results of operations.***

The restrictions on direct flights between Taiwan and Mainland China have been loosened since 2008, but there have been no further negotiations on the expansion of such arrangement between Taiwan and Mainland China since mid-2016. We were the first Chinese carrier to operate non-stop flights between Mainland China and Taiwan and have benefited from the operation of such flights. However, given the cross-Strait flight arrangement is subject to the political relationship between Taiwan and Mainland China, any deterioration in such political relationship may cause the discontinuity or disruption in the flight arrangement, and lead to a material adverse impact on our results of operations.

Furthermore, the travel restrictions and restrictions on regional flights issued by Mainland China and Taiwan to control the spread of the COVID-19 pandemic also resulted in a decrease of the number of cross-Strait direct passenger flights per week, from 28 as of December 31, 2019 to seven as of December 31, 2020. If the impact of the COVID-19 pandemic continues, the direct flight arrangement between Mainland China and Taiwan could be materially and adversely affected.

***Terrorist attacks or the fear of such attacks, even if not made directly on the airline industry, could adversely affect us and the airline industry. The travel industry continues to face on-going security concerns and cost burdens.***

The aviation industry has been beset with high-profile terrorist attacks, most notably the terrorist attack on September 11, 2001 in the United States. Terrorist attacks could also affect the aviation industry in China. Airlines in China have experienced several incidents of terrorist attacks or threats. For example, on March 7, 2008, on a China Southern Airlines flight boarding in Urumqi, crew members discovered a terrorist suspect. On July 14, 2010, a passenger jet en route from Urumqi to Guangzhou was forced to make an emergency landing after receiving an anonymous call claiming there was a bomb on the aircraft. On June 29, 2012, there was an attempted hijacking on a passenger flight operated by Tianjin Airlines between Hotan and Urumqi in China's Xinjiang region. CAAC has enhanced security measures to prevent potential threats of terrorist attacks. Terrorist attacks, even if not made on or targeted directly at the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings, travel restrictions, or selective cancellation or redirection of flights), could materially and adversely affect us and the aviation industry. Terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increase in security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significant decrease in traffic measured in revenue passenger kilometers. Additionally, increasingly strict security measures may cause inconvenience to passengers. These factors can have an uncertain impact on the development of the aviation industry and our business.

***We may suffer losses in the event of an accident involving our aircraft or the aircraft of any other airline.***

An accident involving an aircraft that we operate could expose us to additional repair or replacement expenses, temporary or permanent losses from disruption of services and significant tort liabilities. Although we believe that we currently maintain liability insurance in amounts and of the types generally consistent with industry practice, the amounts of such coverage may not be adequate to fully cover the costs related to the accident or incident, which could result in harm to our results of operations and financial condition. In addition, such an aircraft accident could create a public perception that our operations are not as safe or reliable as those of other airlines, which could harm our competitive position and cause a decrease in our operating revenue. Moreover, a major accident involving the aircraft of any of our competitors may reduce demand for air travel in general, which would adversely affect our results of operations and financial condition.

***The mandatory grounding of our Boeing 737 Max fleet may have a material adverse effect on our business, operating results and financial condition.***

On March 11, 2019, the CAAC issued the notice “CAAC Requesting Domestic Transportation Airlines to Suspend the Commercial Operation of the Boeing 737-8 Aircraft”, requiring domestic airlines to suspend the commercial operations of the Boeing 737-8 Aircraft, which is one of the models of Boeing 737 Max series aircraft. On March 13, 2019, the Federal Aviation Administration of the United States issued an emergency order prohibiting the operation of Boeing 737 Max series aircraft by U.S. certificated operators. By late March 2019, all 737 Max aircraft were grounded worldwide. As of December 31, 2020, we owned 34 Boeing 737 Max aircraft and had suspended their commercial operations in accordance with the requirements of the CAAC. As of the date of this Annual Report, the grounding of Boeing 737 Max fleet was lifted in several countries, including the U.S., EU, Canada, Brazil and Mexico, but was still in effect in China. We have incurred costs in connection with the grounding of our Boeing 737 Max fleet, as well as experienced delayed deliveries of 737 Max aircraft. The long-term operational and financial impact of this grounding is uncertain and could adversely affect our results of operations and financial condition depending on a number of factors, including, among others, the period of time of unavailability, the availability of replacement aircraft, to the extent needed, and the circumstances of any reintroduction of the grounded aircraft to service.

We have filed claims for compensation for our financial damages related to the grounding of our Boeing 737 Max fleet against the Boeing Company. However, as of the date of this Annual Report, we have not agreed to any settlement, and the amount, nature and timing of any settlement with Boeing remains uncertain. If we are unable to pass on the costs or recover the losses incurred in connection with the grounding of Boeing 737 Max fleet, our financial condition and our results of operations may be negatively affected.

***We could be adversely affected by a failure or disruption of our computer, communications or other technology systems.***

We are increasingly dependent on technology to operate our business. To enhance our management of flight operations, we have launched and continued optimizing a new computer system to manage the whole flight operation process. The system utilizes advanced computer and telecommunications technology to manage our flights on a centralized, real-time basis. We believe that the system will enhance the efficiency of flight schedule, increase the utilization of aircraft and improve the coordination of our aircraft maintenance and ground servicing functions. Although we have designed and implemented a variety of security measures and backup plans to prevent or limit the effect of failure, the computer and communications systems on which we rely may be vulnerable to substantial or repeated disruptions due to various factors, some of which are beyond our control, including natural disasters, power failures, terrorist attacks, equipment or software failures and computer viruses and hackers. We cannot assure that the measures we have taken to reduce the risk of some of these potential disruptions are adequate to prevent disruptions to or failures of these systems. Any substantial or repeated failure of those systems could adversely affect our operations and customer services, and result in the loss of important data, loss of revenue and increased costs. Moreover, a failure of our vital systems could limit our ability to operate our flights for an extended period of time, which could have a material adverse effect on our operations and business.

***Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, results of operations and financial condition.***

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today’s digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world, and the increase in work-from-home arrangements in general since the onset of the COVID-19 pandemic may also increase these risks. We were the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Furthermore, in response to these threats, there has been heightened legislative and regulatory focus on data privacy and cybersecurity in China, the U.S. and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including our regional carriers, distribution partners and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis.

In addition, the costs and operational consequences of defending against, preparing for, responding to and remediating an incident of cybersecurity breach may be substantial. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief requiring costly compliance measures. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Failure to appropriately address these issues could also give rise to potential legal risks and liabilities.

***U.S. Holders will be subject to adverse tax consequences if we are considered to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes***

Depending upon the relative values of our passive assets and income as compared to our total assets and income each taxable year, we could be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. We believe that we were not a PFIC for the taxable year 2020. However, there is no assurance that the IRS will not take a contrary position and assert that we are a PFIC, and no assurances can be given that we will not become a PFIC at some point in the future. U.S. Holders are urged to consult their tax advisors regarding the effects of the PFIC rules.

We will be classified as a PFIC in any taxable year if either: (1) the average value during the taxable year of our assets that produce passive income, or are held for the production of passive income, is at least 50% of the average value of our total assets for such taxable year (the “Asset Test”) or (2) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties) (the “Income Test”). For purposes of the Asset Test: (1) any cash, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits that is readily convertible into cash, will generally count as producing passive income or as being held for the production of passive income and (2) the average values of our passive and total assets is calculated based on our market capitalization.

If we were a PFIC, we would generally be subject to additional taxes and interest charges on certain “excess distributions” our Company makes regardless of whether we continue to be a PFIC in the year in which you receive an “excess distribution”. An “excess distribution” would be either (1) the excess amount of a distribution with respect to ADSs during a taxable year in which distributions to you exceed 125% of the average annual distributions to you over the preceding three taxable years or, if shorter, your holding period for the ADSs, or (2) 100% of the gain from the disposition of ADSs. For more information on the United States federal income tax consequences to you that would result from our classification as a PFIC, please see Item 10, “Taxation—United States Federal Income Taxation—U.S. Holders—Passive Foreign Investment Company”.

***We may be unable to retain senior management team or other key employees.***

We are dependent to a large extent on the experience and industry knowledge of our senior management team and other key employees and we cannot assure that we will be able to retain them. As of the date of this Annual Report, we do not carry key personnel insurance for any of these personnel. We compete to attract and retain these key personnel with other airlines, some of which may offer better compensation arrangements. Furthermore, the negative impact of COVID-19 pandemic on the airline industry has made it more challenging for us to compete to attract and retain these key personnel with companies in other industries. Although we have not had difficulty in attracting and retaining qualified key personnel in the past, we cannot guarantee that this will continue to be the case. Any inability to attract and retain talented and highly qualified senior management team or other key employees, could have a negative impact on us.

**Risks Relating to the Chinese Commercial Aviation Industry**

***Our business is subject to extensive government regulations.***

The Chinese commercial aviation industry is subject to extensive regulatory and legal oversight. The CAAC issues and implements several regulations and policies, which encompass substantially all aspects of the Chinese commercial aviation industry, such as the approval of route allocation, the administration of certain airport operations, air traffic control and pilot flight time limitations. In 2020, in order to stem the spread of the COVID-19 pandemic, CAAC issued various guidance, orders and notices with regard to the implementation of precautionary measures in airline operations, including cleaning and sanitizing procedures, face-covering and social distancing requirements and measures for reducing physical touch points. In addition, in response to the challenges faced by the Chinese commercial aviation industry due to the COVID-19 pandemic, CAAC also issued several policies to support Chinese airlines, including reduction or waiver of certain fees, funding support in respect of infrastructures, and simplification of certain approval procedures. Starting from April 1, 2021, the Ministry of Finance reduced airlines’ contributions to the Civil Aviation Development Fund by 20%, on top of the 50% reduction that was implemented in July 2019. Since December 1, 2020, CAAC and NDRC further expanded the scope of routes to which a market-oriented pricing policy may apply, with an additional 370 routes are covered by such expansion. The CAAC continues to implement extensive legal oversight and supervision on the commercial aviation industry, and as a result, we may face significant constraints on our flexibility and ability to conduct our business or maximize our profitability.

***Our results of operations may be negatively impacted by any jet fuel shortages or any fluctuation in domestic prices for jet fuel.***

The availability and cost of jet fuel have a significant impact on our financial condition and results of operations. Prior to 1993, jet fuel shortages regularly occurred in China, as a result of which we had to cancel or delay flights. Although we have not experienced jet fuel shortages since 1993, we cannot assure that such shortages would not occur again, and if such a shortage occurs and causes us to delay or cancel flights, our reputation among passengers as well as our operations may suffer.

Domestic price for jet fuel has experienced fluctuations in the past few years and may continue to fluctuate in the future due to various factors. In 2020, our jet fuel cost accounted for 50.07% of our flight operation expenses. Therefore, any fluctuation in the fuel price may affect our financial performance due to our sensitivity to fuel prices. For more information on the jet fuel prices, please see “Item 4, Information on the Company—Business Overview—Jet Fuel” section below for further discussion.

In 2020, a reasonable possible increase or decrease of 10% in average jet fuel prices with the volume of fuel consumed and all other variables held constant, would have increased or decreased our annual fuel costs by approximately RMB1,880 million. Accordingly, even if the jet fuel supply remains stable, increases in jet fuel prices will nevertheless adversely impact our financial results.

***Our profit for the year may suffer from unexpected volatility caused by any fluctuation in the level of fuel surcharges.***

The level of fuel surcharges, which is regulated by Chinese government, affects domestic customers' air travel demands as well as our ability to generate profits. On January 14, 2009, the NDRC and the CAAC jointly announced that the collection of passenger fuel surcharges for domestic routes should be suspended from January 15, 2009 and onwards. Subsequently, in response to the increase in international fuel prices, the NDRC and CAAC issued a notice on November 11, 2009 to introduce a new pricing mechanism of fuel surcharges that linked it with airlines' jet fuel costs, which was further adjusted subsequently. On October 14, 2011, the NDRC and the CAAC issued a notice to adjust such pricing mechanism. As a result of this adjustment, the maximum rates for fuel surcharges can be adjusted according to the pricing mechanism of fuel surcharges, if the aggregated change in jet fuel costs exceeds RMB250 per ton. Due to the decrease in the jet fuel cost, the fuel surcharges were suspended since February 5, 2015. In March 2015, the NDRC and the CAAC issued the "Notice on Adjusting the Base Oil Price of the Passenger Transportation Fuel Addition and Aviation Kerosene Price Linkage Mechanism of Civil Aviation Domestic Routes", pursuant to which, when the domestic aviation kerosene comprehensive procurement cost exceeds RMB5,000 per ton, an air transport enterprise can collect fuel surcharge according to the linkage mechanism. In accordance with the above regulations, we adjusted the fuel surcharges for domestic routes from June 5, 2018 (the date of issue), and, as a result, each passenger was charged RMB10 for domestic flight segments (including domestic segments of international routes) under 800 kilometers, 800 kilometers and above 800 kilometers. The fuel surcharges for domestic routes were suspended after January 5, 2019. We cannot guarantee that fuel surcharges would not be adjusted further in the future or adjusted in our favor. If fuel surcharges are not adjusted in correspondence to the increase in jet fuel, our profit for the year may be materially adversely affected.

***Our results of operations tend to be volatile and fluctuate due to seasonality.***

The aviation industry is characterized by annual high and low travel seasons. Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. In particular, our airline revenue is generally higher in the second half of the year than in the first half of the year due to the greater demand for air travel during the summer months, although such difference is less notable in 2020 as the traditional seasonal travel pattern were affected by the COVID-19 pandemic. As a result, our results tend to be volatile and subject to rapid and unexpected change.

***Our operations may be adversely affected by insufficient aviation infrastructure in the Chinese commercial aviation industry.***

The rapid increase in air traffic volume in China in recent years has put pressure on many components of the Chinese commercial aviation industry, including China's air traffic control system, the availability of qualified flight personnel and airport facilities. Airlines, such as our Company, which have route networks that emphasize short- to medium-haul routes, are generally more affected by insufficient aviation infrastructure in terms of on-time performance and high operating costs due to fuel inefficiencies resulting from the relatively short segments flown, as well as the relatively high proportion of time on the ground during turnaround. All of these factors may adversely affect the perception of the service provided by an airline and, consequently, the airline's operating results. In recent years, the CAAC placed increasingly emphasis on the safety of Chinese airline operations and implemented measures aimed at improving the safety record of the industry. Our ability to increase utilization rates and to provide safe and efficient air transportation in the future will depend in part on factors such as the improvement of national air traffic control, navigation systems and ground control operations at Chinese airports, which are beyond our control.

In 2020, the Company completed the transit of all flights in our previous Beijing hub, Beijing Capital International Airport, or Beijing Airport, to Beijing Daxing International Airport, or Daxing Airport. Because Daxing Airport is farther from the urban area of Beijing than Beijing Airport and longer commute time is therefore required between the airport and the city, we had to lower ticket prices to attract passengers to take our flights from the Daxing Airport in 2020. This measure may have adverse effect on our operating revenue and profits if we have to continue offering lower price in the future.

***We face increasingly intense competition in both domestic and international markets, which may materially and adversely affect our business.***

Competition has become increasingly intense in recent years in our domestic market, due to relaxation of certain regulations by the CAAC and increase in the capacity, routes and flights of Chinese airlines, as well as other factors. In 2020, the COVID-19 pandemic has intensified such competition in the domestic market as significant amount of international routes capacity were transferred to domestic routes and led to imbalance in the supply-demand in the domestic market.

We face varying degrees of competition on regional routes from certain Chinese airlines as well as Cathay Pacific and Air Macau, and on our international routes, primarily from non-Chinese airlines, most of which have significantly longer operating histories, substantially greater financial and technological resources and greater brand recognition than us. Many of our international competitors have larger sales networks, participate in more comprehensive and convenient reservation systems, or engage in more promotional activities, which may enhance their ability to attract international passengers.

In addition, our business is relatively more focused on the domestic market compared to some of our major Chinese competitors, such as Air China Limited, or Air China. So far, as the COVID-19 pandemic has been better contained in China than in other countries worldwide, our competitiveness among major Chinese airlines has not been significantly impacted due to the pandemic, as compared to those airlines with greater international operations. However, if in the future the domestic market became more negatively impacted due to the pandemic than the international market, our business may be subject to more adverse effects comparing to our competitors, and subsequently our competitiveness may be adversely affected.

***We expect to face substantial competition from alternative means of transportation, especially as a result of the rapid development of the Chinese rail network.***

For short-distance transportation, airplanes, trains and buses are alternatives to each other. Given the recent rapid development of high-speed trains, the construction of nationwide high-speed railway network and the improvement of inter-city expressway network, the commercial aviation sector as a whole faces increasing competition from those alternative means of transportation.

The PRC government is aggressively expanding its high-speed rail network. The mileage of new railway lines put into operation in 2020 reached about 7,000 kilometers. As of December 31, 2020, China's railway traffic mileage reached 146,300 kilometers, among which 37,900 kilometers were covered by high-speed railway, accounting for more than 60% of the world's total high-speed railway traffic mileage. According to the latest development goal of the China Railway, China's railway traffic mileage will reach 200,000 kilometers by 2025, among which 70,000 kilometers will be covered by high-speed railway. The operating results of our air routes that are overlapping with the high-speed railway corridors (especially air routes with a distance of less than 800 kilometers), will be affected in the future.

***Limitations on foreign ownership of Chinese airlines may affect our access to funding in the international equity capital markets.***

The current Chinese government policies limit foreign ownership of Chinese airlines. Under these policies, non-PRC, Hong Kong, Macau, Taiwan residents can only hold up to 49% of equity interest in a Chinese airline. As of April 23, 2021, we estimated that no more than 31.39% of our total outstanding ordinary shares were held by non-PRC, Hong Kong, Macau and Taiwan residents. According to The Provisions on Domestic Investment in Civil Aviation Industry, effective on January 19, 2018, Chinese government has loosened restrictions on state ownership of our total outstanding ordinary shares, which allows the percentage of state-owned shares to be under 50%. However, for so long as the limitation on foreign ownership is in force, we will have limited access to funding in the international equity capital markets.

***The European Emissions Trading Scheme may increase our operational cost.***

Starting on January 1, 2012, aviation sector has been included in the European Emissions Trading Scheme (ETS), EU's mandatory cap-and-trade system for reduction of greenhouse gas emissions. Airline operators in the EU has received tradable emission permits (aviation allowances) covering a certain level of their CO2 emissions per year for their flights operating to and from EU airports. If an airline fails to obtain free-of-charge emission permits from the EU, it will have to buy around EUR10 million (RMB100 million) worth of CO2 emissions allowances from other greener industries. Pursuant to this policy, Chinese airlines having flight points in Europe undertake the same carbon emission reductions obligation as the European local airlines, which will result in a significant increase in the operating cost of Chinese airlines in Europe, including our Company, and further have an adverse impact on the results of operations and financial condition. In March 2011, a group representing China's largest airlines sent a formal notice to the EU expressing strong opposition to non-member-state airlines' inclusion in the EU's Emissions Trading Scheme. Also, in early February 2012, CAAC issued instructions to various airlines announcing that without approval from the relevant Chinese government authorities, the major airlines are prohibited from joining EU-ETS and the transport airlines are also prohibited from raising the freight price or increasing fee items under this reason. On November 12, 2012, the EU announced it was temporarily suspending the implementation of the ETS in the aviation sector in 2013 in order to forge a positive negotiation environment for all parties. In November 2014, CAAC issued a notification on the ETS. The notification provided that CAAC would not prohibit Chinese airlines to take part in the ETS if the relevant flights take off and land between the airports within the EU during 2012 and 2016. We have operated few flights between airports within the EU since 2012, and expect to operate few flights between airports within the EU in the future. Therefore, we submitted emission reports and paid the quota between 2012 and 2016 for our flights between airports within the EU. In April 2015, our Company completed submission of emissions reports for the years 2012 to 2014 and fulfilled our obligations under the ETS. In 2016, our Company finished year 2015 compliance cycle. On year 2017-2018 compliance cycle, our Company had been in compliance with the requirements of relevant PRC laws and the ETS. During the reporting period, the Company's efforts on environmental protection included pushing forward the building of an ecological environment protection and energy management system, reducing energy and resource consumption and strengthening carbon trading management. The Company completed the compliance work on 2019 EU carbon trading and Guangdong carbon trading as scheduled, and sold 695,000 tonnes of Guangdong carbon quota accumulated over the years due to the improvement of flight emission efficiency through public auctions. However, there can be no assurance that the ETS will not have negative impact on our financial condition and result of operations.

***We may utilize fuel hedging arrangements which may result in losses.***

We may hedge a portion of our future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. While we have not entered into any fuel hedging transactions during the year ended December 31, 2019, we entered into fuel hedging contracts in March and April 2020. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, while we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

**Risks Relating to the PRC**

***We have significant exposure to foreign currency risk as part of our lease liabilities are denominated in foreign currencies. Due to rigid foreign exchange control by Chinese government, we may face difficulties in obtaining sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.***

Under current Chinese foreign exchange regulations, the Renminbi is fully convertible for current account transactions, but is not freely convertible for capital account transactions. All foreign exchange transactions involving Renminbi must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange or at a swap center.

We have significant exposure to foreign currency risk as the majority of our lease liabilities and certain bank and other loans are denominated in foreign currencies, principally U.S. dollars, Euros and Japanese Yen. Depreciation or appreciation of the Renminbi against foreign currencies affects our results significantly because our foreign currency liabilities generally exceed our foreign currency assets. We are not able to hedge our foreign currency exposure effectively other than by retaining our foreign currency denominated earnings and receipts to the extent permitted by SAFE, or subject to certain restrictive conditions, entering into foreign exchange forward option contracts with authorized banks. However, SAFE may limit or eliminate our ability to purchase and retain foreign currencies in the future. In addition, foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. No assurance can be given that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

***Uncertainties in the interpretation and enforcement of PRC laws and regulations may cause significant uncertainties to our operations.***

Our Company and our major subsidiaries are organized under the laws of China. The Chinese legal system is based on written statutes and is a system, unlike common law systems, in which decided legal cases have little precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade. These laws, regulations and legal requirements are relatively recent, and, like other laws, regulations and legal requirements in China (including with respect to the commercial aviation industry), their interpretation and enforcement involve significant uncertainties.

***The enactment of the Holding Foreign Companies Accountable Act may result in enhanced disclosure requirements for us and our delisting from the NYSE and deregistration from the SEC.***

On December 18, 2020, the Holding Foreign Companies Accountable Act, or HFCAA, was signed into law. The HFCAA requires the SEC to identify each issuer trading on U.S. exchanges that has retained a registered public accounting firm to issue an audit report where the firm has a branch or office located in a foreign jurisdiction, and the PCAOB has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction. Registrants so identified, or Identified Issuers, are required to submit documentation to the SEC that establishes that they are not owned or controlled by a governmental entity in that foreign jurisdiction. In addition, if the registrant is determined to be an Identified Issuer for three consecutive years, it will be delisted from U.S. exchanges and its securities will be prohibited from trading in the United States. Identified Issuers that are foreign issuers will also be subject to enhanced disclosure requirements, including disclosure on government ownership or control of the issuer, the name of each official of the Chinese Communist Party who is a member of the issuer's board of directors, and whether the issuer's articles of incorporation contain any charter of the Chinese Communist Party.

On March 24, 2021, the SEC adopted interim final amendments to implement the disclosure and submission requirements of the HFCAA. A registrant will not be required to comply with these interim final amendments until it has been identified by the SEC as an Identified Issuer. As of the date of this annual report, the SEC has not issued rules to establish the process for identifying such an Identified Issuer and to address the implementation of the trading prohibitions in the HFCAA. The SEC is also seeking public comments on the interim final amendments. It remains unclear when the SEC will release rules regarding the identification process and the implementation of the trading prohibitions or whether the SEC will issue any further rules to amend the interim final amendments.

The enactment of the HFCAA and any additional implementation rules may have a material adverse impact on the stock performance of China-based issuers listed in the United States, including causing investor uncertainty for affected issuers, including us, and affecting the market price of our ADSs. In addition, whether the PCAOB will be able to conduct inspections of our auditors in the next three years, or at all, is subject to substantial uncertainty and depends on a number of factors out of our control. If we are unable to meet the PCAOB inspection requirement in time, we could be identified by the SEC pursuant to the HFCAA and if so, we will be subject to enhanced disclosure requirements and may face delisting from the NYSE and deregistration from the SEC.



***Holders of H Shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A Shares only through arbitration in Hong Kong or China.***

In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H Shares and ADSs and holders of A Shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that the venue be changed to Shenzhen, a city in China near Hong Kong. The governing law for any such disputes or claims is Chinese law, unless Chinese law itself provides otherwise. Pursuant to an arrangement of mutual enforcement of arbitration awards between the PRC courts and the Hong Kong courts, Hong Kong arbitration awards are enforceable in China, subject to the satisfaction of certain legal requirements. However, due to the limited number of actions that have been brought in China by holders of shares issued by a Chinese company to enforce an arbitral award, we are uncertain as to the outcome of any action brought in China to enforce a Hong Kong arbitral award made in favor of holders of H Shares and ADSs.

***PRC laws differ from the laws in the United States and may afford less protection to our minority shareholders.***

Although Chinese company law provides that shareholders of a Chinese company may, under certain circumstances, sue the company's directors, supervisors and senior management in the interests of the company, limited detailed implementation rules or court interpretations have been issued in this regard. Also, class action lawsuits are generally uncommon in China. In addition, PRC company law imposes limited obligations on a controlling shareholder with respect to protection of the interests of minority shareholders, although overseas listed joint stock companies, such as ourselves, are required to adopt certain provisions in their articles of association that are designed to protect minority shareholder rights. These mandatory provisions provide, among other things, that the rights of any class of shares, including H Shares, may not be varied without a resolution approved by holders of shares in the affected class holding no less than two-thirds of the shares of the affected class entitled to vote, and provide that in connection with a merger or division involving our company, a dissenting shareholder may require us to purchase the dissenters' shares at a fair price. Disputes arising from these protective provisions would likely have to be resolved by arbitration. See “—Holders of H Shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A Shares only through arbitration in Hong Kong or China”.

***The PRC tax law may have negative tax impact on holders of our H Shares or ADSs, by requiring the imposition of a withholding tax on dividends paid by a Chinese company to a non-resident enterprise.***

The current tax law generally provides for a withholding tax on dividends paid by a Chinese company to a non-resident enterprise at a rate of 10%.

Caishui Notice [2014] No. 81 provides that for dividends derived by Mainland individual investors from investing in H Shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect, H-Share companies shall apply to the China Securities Depository and Clearing Corporation Limited (CSDC) to obtain and CSDC shall provide the list of Mainland individual investors to H-Share companies who shall withhold individual income tax at a tax rate of 20%. For Mainland securities investment funds investing in shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect, the above rules shall also apply and individual income tax shall be levied on dividends derived therefrom.

Caishui Notice [2014] No. 81 further provides that “dividends derived by Mainland enterprise investors from investing in shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect shall be included in their gross income and subject to enterprise income tax. For dividends derived by Mainland enterprises where the relevant H Shares have been continuously held for no less than 12 months, enterprise income tax may be exempt according to the tax law. H-Share companies listed on the Hong Kong Stock Exchange shall apply to CSDC to obtain the list of Mainland enterprise investors from CSDC. H-Share companies are not required to withhold income tax on dividends to Mainland enterprise investors which shall report the income and make the tax payment by themselves.”

In addition, to date, relevant tax authorities have not collected capital gains tax on the gains realized upon the sale or other disposition of overseas shares in Chinese enterprise held by foreign individuals. If relevant tax authorities promulgate implementation rules on the taxation of capital gains realized by individuals upon the sale or other disposition of the shares, individual holders of the shares may be required to pay capital gains tax.

***Our investors in the U.S. who rely on our auditor's audit reports currently do not have the benefit of PCAOB oversight.***

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. The PCAOB, however, is currently unable to inspect a registered public accounting firm's audit work relating to a company's operations in China where the documentation of such audit work is located in China. Accordingly, our independent registered public accounting firm's audit of our operations in China is not subject to the PCAOB inspection.

The PCAOB has conducted inspections of independent registered public accounting firms outside of China and has at times identified deficiencies in the audit procedures and quality control procedures of those accounting firms. Such deficiencies may be addressed in those accounting firms' future inspection process to improve their audit quality. Due to the lack of PCAOB inspections of audit work undertaken in China, our investors do not have the benefit of the regular evaluation by PCAOB of the audit works, audit procedures and quality control procedures of our independent registered public accounting firm.

***If additional remedial measures are imposed against four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC, it could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934.***

In December 2012, the SEC instituted administrative proceedings against four PRC-based accounting firms, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers related to their audit of certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, an initial administrative law decision was issued, which determined that the four PRC-based accounting firms should be censured and barred from practicing before the SEC for a period of six months. The four PRC-based accounting firms appealed the initial administrative law decision to the SEC. The initial law decision is neither final nor legally effective unless and until it is endorsed by the full SEC. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to provide the SEC with access to PRC-based firms' audit documents via the CSRC.

We were not and are not the subject of any SEC investigations nor are we involved in the proceedings brought by the SEC against the accounting firms. If the firms do not follow these procedures or if there is a failure in the process between the SEC and the CSRC, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. If the accounting firms including our independent registered public accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, and we were unable to find another registered public accounting firm in a timely manner to audit and issue a report on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report.***

We are a company incorporated under the laws of China, and substantially all of our assets are located in China. In addition, most of our directors, supervisors, executive officers and some of the experts named in this Annual Report reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our directors, supervisors or executive officers or some of the experts named in this annual report, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Our PRC legal counsel has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. Our Hong Kong legal adviser has also advised us that Hong Kong has no statutory arrangement for the reciprocal enforcement of judgments with the United States although it may be possible for a civil action to be brought in Hong Kong based on a monetary judgment of the courts of the United States. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible. Furthermore, an original action may be brought in the PRC against us, our directors, supervisors, executive officers or the experts named in this annual report only if the actions are not required to be arbitrated by PRC law and our articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

Due to jurisdictional limitations and various other factors, the U.S. Securities and Exchange Commission, the U.S. Department of Justice and other U.S. authorities may also be limited in their ability to pursue companies and individuals in China, in connection with any alleged violation of U.S. securities and other laws.

***Recent international trade tensions could materially and adversely affect our business, financial condition and results of operations.***

Economic conditions in China are sensitive to global economic conditions. The global financial markets have experienced significant disruptions in the past, including international trade disputes and tariff actions announced by the United States, the PRC and certain other countries. The U.S. administration has imposed significant amount of tariffs on Chinese goods, and the PRC government has imposed tariffs on certain goods manufactured in the United States. The United States and China signed the first phase of a trade deal in January 2020 and began the implementation of the phase one trade deal. However, there is no assurance that the trade deal will continue to be successfully implemented, or the list of goods impacted by additional tariffs will not be expanded or the tariffs will not be increased materially in the future. It is also difficult to predict the impacts of PRC or U.S. government policies, in particular, the imposition of additional tariffs on bilateral imports, on economic conditions of both countries. If the list of goods is further expanded or the tariff is further increased, the volume of China-U.S. import and export trade would drop significantly, which will lead to deterioration in economic conditions of both countries and decrease of business and official activities between both countries. If any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or, in particular, if the U.S. government takes retaliatory trade actions due to the recent U.S.-China trade tensions, such changes could negatively affect the demand for air travel as well as cargo and mail volume, which may in turn have an adverse effect on our business, financial condition and results of operations.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. HISTORY AND DEVELOPMENT OF OUR COMPANY**

We were incorporated under the PRC laws on March 25, 1995 as a joint stock company with limited liability under the name of China Southern Airlines Company Limited. The address of our principal place of business is 68 Qi Xin Road, Guangzhou 510403, People's Republic of China. Our telephone number is +86 20 8611 2480 and our website is [www.csair.com](http://www.csair.com).

The information contained on or connected to our website is not incorporated by reference into this Annual Report and should not be considered part of this or any other report filed with the SEC. Our filings with the SEC, including reports, proxy and information statements, and other information regarding us that we file electronically with the SEC are available on the SEC's websites at [www.sec.gov](http://www.sec.gov).

**Restructuring and Initial Public Offering**

As part of China's economic reforms in the 1980s, the PRC State Council directed the CAAC to separate its governmental, administrative and regulatory role from the commercial airline operations that were being conducted by the CAAC and its regional administrators. As a result, CSAH was established on January 26, 1991 for the purpose of assuming the airline and airline-related commercial operations of the Guangzhou Civil Aviation Administration, one of the then six regional bureaus of the CAAC.

CSAH was restructured in 1994 and 1995 in anticipation of our initial public offering. The restructuring was effective through the establishment of our Company and the execution of the De-merger Agreement on March 25, 1995 by and between CSAH and our Company. Upon the restructuring, our Company assumed substantially the entire airline and airline-related businesses, assets and liabilities of CSAH, and CSAH retained its non-airline-related businesses, assets and liabilities. All interests, rights, duties and obligations of CSAH, whenever created or accrued, were divided between our Company and CSAH based on the businesses, assets and liabilities assumed by each of them under the De-merger Agreement. Under the De-merger Agreement, CSAH agreed not to conduct, participate or hold any interest in, either directly or indirectly, any business, activity or entity in or outside China that competes or is likely to compete with the commercial interests of our Company, although CSAH may continue to hold and control its affiliates existing on the date of the De-merger Agreement and may continue to operate the businesses of such affiliates. Under the De-merger Agreement, CSAH and our Company also agreed to indemnify each other against any losses, claims, damage, debts or expenses arising out of or in connection with the restructuring. As of the date of this Annual Report, no indemnity has been provided by either CSAH or us.

In July 1997, we completed a private placement of 32,200,000 H Shares to certain limited partnership investment funds affiliated with Goldman Sachs & Co. and an initial public offering of 1,141,978,000 H Shares, par value RMB1.00 per share, and the listing of the H Shares on the Hong Kong Stock Exchange and ADSs on the New York Stock Exchange. Prior to the private placement and the initial public offering, all of our issued and outstanding shares of capital stock, consisting of 2,200,000,000 non-tradable domestic shares (“Domestic Shares”), par value RMB1.00 per share, were owned by CSAH, which owned and exercised, on behalf of the Chinese government and under the supervision of the CAAC, the rights of ownership of such Domestic Shares. After giving effect to the private placement and the initial public offering, CSAH maintained its ownership of the 2,200,000,000 Domestic Shares (representing approximately 65.2% of the then total share capital of our Company), and became entitled to elect all the directors of our Company and to control the management and policies of our Group. The Domestic Shares and H Shares are both ordinary shares of our Company.

In July 2003, we issued 1,000,000,000 A Shares, par value of RMB1.00 per share, and listed these shares on the Shanghai Stock Exchange. Subsequent to the issuance of the A Shares, the shareholding of CSAH in our Company was reduced from 65.2% to 50.30%.

### **Share Reform Scheme**

Pursuant to relevant PRC laws, we launched the share reform scheme in May 2007, whereby all the 2,200,000,000 non-tradable Domestic Shares held by CSAH would be converted into tradable A Shares. Upon the completion of such scheme on June 20, 2008, all the non-tradable Domestic Shares have been successfully converted into tradable A Shares. Subject to the restriction, CSAH shall not transfer or trade these shares within 36 months after the commencement date of the share reform scheme, which is June 18, 2007.

### **Bonus Shares Issuance by Conversion of Share Premium**

On June 25, 2008, our shareholders approved issuance of bonus shares by way of conversion of share premium, and on August 14, 2008, the Ministry of Commerce approved the bonus share issuance. The issuance was effected by conversion of share premium on the basis of five new shares, credited as fully paid, for every ten existing shares. Upon the completion of the bonus share issuance of 2,187,089,000 shares, as of December 31, 2007, the number of paid up shares increased from 4,374,178,000 shares to 6,561,267,000 shares.

### **Aircraft Acquisitions**

On August 3, 2012, Xiamen Airlines entered into an agreement with Boeing to purchase 40 Boeing B737 series aircraft from Boeing. The aggregate catalogue price of the 40 Boeing B737 series aircraft is US\$3.36 billion. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. Among which, 31 Boeing B737 series aircraft were delivered in stages to Xiamen Airlines during the period from 2016 to 2018. Boeing delayed the delivery of certain Boeing B737 series aircraft to Xiamen Airlines in 2019. As of the date of this Annual Report, the delivery schedule of the remaining Boeing B737 series aircraft had not been determined.

On May 16, 2014, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 30 Airbus A320 series aircraft and 50 A320neo series aircraft. The catalogue price of one Airbus A320 series aircraft and one A320neo series aircraft differs, ranging from US\$85.8 million to US\$110.1 million and US\$94.4 million to US\$120.5 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal resources of our Company and partly through commercial loans by commercial banks. The 30 A320 aircraft were delivered in stages to our Company during the period from 2016 to 2019, and 30 A320neo aircraft were delivered to our Company during the period from 2016 to 2020. The remaining 20 A320neo aircraft were scheduled to be delivered in stages to us from 2021 to 2022.

On December 17, 2015, we entered into the aircraft acquisition agreement with Boeing to purchase 30 B737NG series aircraft and 50 B737 MAX series aircraft. The catalogue price of each B737NG series aircraft and B737 MAX series aircraft is about US\$81.2 million and US\$96.1 million, respectively. The aggregate consideration for the acquisition will be funded partly payable in cash and partly through financing arrangements with banking institutions. The 30 B737NG aircraft were delivered in stages to our Company in 2017 and the 50 B737 MAX aircraft were scheduled to be delivered in stages to our Company during the period from 2018 to 2021. Boeing delayed the delivery of certain B737 MAX aircraft to our Company in 2019. As of the date of this report, the delivery schedule of the remaining B737 MAX aircraft had not been determined.

On October 12, 2016, we entered into the aircraft acquisition agreement with Boeing to purchase 12 B787-9 series aircraft. The catalogue price of one B787-9 series aircraft is about US\$271 million. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing aircraft were scheduled to be delivered in stages to our Company during the period from 2018 to 2020. Five B787-9 series aircraft were delivered in stages to our Company in 2018 and four B787-9 series aircraft were delivered in stages to our Company in 2019. The remaining three B787-9 aircraft were scheduled to be delivered to our Company from June to November in 2021.

On April 26, 2017, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 20 A350-900 series aircraft. The catalogue price of one A350 series aircraft is about US\$299 million. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. Six A350-900 series aircraft were delivered to our Company in 2019 and two A350-900 series aircraft were delivered to our Company in 2020. The remaining 12 A350-900 aircraft were scheduled to be delivered to our Company during the period from 2021 to 2023.

On October 20, 2017, we entered into the aircraft acquisition agreement with Boeing to purchase eight B777-300ER and 30 B737-8 series aircraft. The catalogue price of each B777-300ER series aircraft and each B737-8 series aircraft is about US\$318 million and US\$104 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing aircraft were scheduled to be delivered in stages to our Company during the period from 2019 to 2020. On February 28, 2019, we entered into the supplemental Boeing aircraft acquisition agreement with Boeing to amend the terms of the aforesaid aircraft acquisition agreement to change the two B777-300ER aircraft originally agreed to be acquired by our Company to two B777F aircraft. These two B777F aircraft were delivered to our Company in 2020 on schedule. None of Boeing 737-8 series aircraft was delivered to our Company in 2019 and 2020. As of the date of this Annual Report, the delivery schedule of the remaining Boeing 737-8 series aircraft had not been determined.

On March 21, 2018, Xiamen Airlines entered into the Boeing Aircraft Acquisition Agreement with Boeing to purchase the 20 B737-8 aircraft and ten B737-10 aircraft. The catalogue price of each B737-8 series aircraft and B737-10 series aircraft is about US\$104 million and US\$116 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing aircraft were scheduled to be delivered in stages to Xiamen Airlines during the period from 2019 to 2022. One Boeing 737-8 was delivered to Xiamen Airlines in 2019 and no Boeing 737-8 series aircraft was delivered to Xiamen Airlines in 2020. As of the date of this Annual Report, the delivery schedule of the remaining Boeing 737 series aircraft had not been determined.

On August 30, 2019, we entered into an aircraft acquisition agreement with Commercial Aircraft Corporation of China Limited (“Comac”), pursuant to which we agreed to purchase 35 ARJ21-700 aircraft. The catalogue price of each ARJ21-700 aircraft is approximately US\$38 million. The aggregate consideration for this acquisition will be partially funded by financing arrangements with banks or other institutions. Three ARJ21-700 aircraft were delivered in stages to our Company in 2020, and the remaining 32 ARJ21-700 aircraft were scheduled to be delivered to our Company during the period from 2021 to 2024.

During the reporting period, our Group introduced 32 aircraft (including ten operating leased aircraft, 13 financing leased aircraft and nine self-purchased aircraft), and disposed 27 aircraft (including 14 A320 series aircraft, 11 EMB190 aircraft and two A330 aircraft). As of the end of the reporting period, the fleet size of our Group reached 867 aircraft, an increase of five aircraft compared to the end of 2019.

## Capital Expenditure

We expended RMB22,396 million, RMB45,973 million and RMB37,210 million in capital expenditures in 2020, 2019 and 2018, respectively. Of such capital expenditures in 2020, RMB11,335 million was financed by leases, RMB6,707 million was financed by bank borrowings, and RMB3,471 million was financed by proceeds from issuance of shares, while the remaining RMB883 million was financed by internal resources. The capital expenditures were primarily incurred on the additional investments in aircraft and flight equipment under our fleet expansion plans and, to a small extent, additional investments in other facilities and buildings for operations. As of December 31, 2020, we had total capital commitments for aircraft, engines and related equipment of approximately RMB56,547 million.

## Non-Public Subscriptions

For detailed information about our non-public subscriptions, please refer to “Item 7—Related Party Transactions—Non-Public Subscriptions”.

## B. BUSINESS OVERVIEW

### General

We provide commercial airline services throughout Mainland China, Hong Kong, Macau and Taiwan regions, Southeast Asia and other parts of the world. Based on the statistics of the CAAC, we are one of the largest Chinese airlines and, as of December 31, 2020, we ranked the first in terms of number of passengers carried, number of scheduled flights per week, number of hours flown, number of routes and size of aircraft fleet. During the three years ended December 31, 2020, our RPKs changed from 259,194 million in 2018 to 284,921 million in 2019 and 153,440 million in 2020, while our capacity, measured in terms of ASKs, changed from 314,421 million in 2018 to 344,062 million in 2019 and 214,722 million in 2020. In 2020, our Group carried 96.86 million passengers and had passenger revenue of RMB70,534 million (approximately US\$10,810 million).

We conduct a portion of our airline operations through our airline subsidiaries, namely Xiamen Airlines, Shantou Airlines Company Limited (“Shantou Airlines”), Zhuhai Airlines Company Limited (“Zhuhai Airlines”), Guizhou Airlines Company Limited (“Guizhou Airlines”), Chongqing Airlines Company Limited (“Chongqing Airlines”) and China Southern Airlines Henan Airlines Company Limited (“Henan Airlines”), (collectively, the “Airline Subsidiaries”). In 2020, the Airline Subsidiaries carried 41.23 million passengers and had passenger revenue of RMB25,662 million (approximately US\$3,933 million) and accounted for 42.57% and 36.38% of our passengers carried and passenger revenue, respectively.

We also provide air cargo and mail services. In 2020, in response to the increased demand of freight following the outbreak of the COVID-19 pandemic and to seize the opportunity to increase cargo and mail revenue, we improved the utilization rate of freighters and organized flights by freighters converted from passenger aircraft. Our cargo and mail revenue increased by 71.53% to RMB16,493 million (approximately US\$2,528 million) in 2020. Our airline operations are fully integrated with our airline-related businesses, including aircraft maintenance, ground services and air catering operations.

Our operations primarily focus on the domestic market. In addition, we also operate regional routes and international flights. As of December 31, 2020, we operated 1,457 routes, of which 1,195 were domestic, 228 were international and 34 were regional. We operate the most extensive domestic route network among all Chinese airlines. Our route network covers commercial centers and rapidly developing economic regions in Mainland China. Our regional operations include flights between destinations in Mainland China, Hong Kong, Macau and Taiwan. Our international operations include scheduled services to cities in Australia, Bangladesh, Cambodia, Canada, Dutch, France, Indonesia, Japan, Kenya, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Myanmar, Laos, Singapore, South Korea, Thailand, United Kingdom, United States of American (USA), and Vietnam.

We have striven to build “Guangzhou-Beijing Dual Hub” to establish a new profit model and development mode, and gradually to develop a network-based airline. On October 10, 2017, we held the opening ceremony of Beijing Daxing International Airport’s hub project. During 2018, we continued to optimize the Guangzhou hub and completed the transfer operation to T2 terminal of Guangzhou Baiyun International Airport. Meanwhile, we were fully committed to building the Beijing hub, and launched Beijing-Istanbul and other new routes, and Xiong’an Airlines was approved for establishment. In 2019, we commenced the operation of CSA base simultaneously with the opening of Beijing Daxing International Airport, and successfully completed the first flight and the transition of the first 13 routes in 2019. In 2020, we cultivated in the Guangdong-Hong Kong-Macao Greater Bay Area and endeavored to build the Guangzhou hub into a model international aviation hub co-constructed with the province and city. Presently, we have over 50% of the market share in Guangzhou. Our Guangzhou hub has formed its route network featured with Europe and Oceania as its core, Southeast Asia, Southern Asia and Eastern Asia as its hinterlands, and with North America, Middle East and Africa covered. At the same time, we have completed the relocation of all flights in Beijing Airport to Beijing Daxing Airport, with utilized time slots accounting for 45%, becoming the largest main base airline in Beijing Daxing Airport, thus providing favorable conditions and resources for the development of our new Beijing hub. By comprehensively advancing the strategic layout of the “dual hubs”, we have further improved our institutional mechanisms and supporting resources to form a new development layout of CSA with Guangzhou Hub in the south and Beijing Hub in the north.

Our corporate headquarters and principal base of operations are located in Guangzhou, the capital of Guangdong Province and the largest city in southern China. Located in the rapidly developing Pearl River Delta region, Guangzhou is also the transportation hub of southern China and one of China’s major gateway cities. Guangzhou’s significance has increased as the transportation infrastructure of Guangdong Province has developed through the construction and development of expressways, an extensive rail network and the port cities of Guangzhou, Shenzhen, Zhanjiang, Zhuhai and Shantou. In 2020, the Company continued the construction integrating the Guangdong-Hong Kong-Macao Greater Bay Area, which drove the flow of people, logistics, information and capital in Guangdong Province and the entire Guangdong-Hong Kong-Macao Greater Bay Area, and enhanced the connectivity between the Guangdong-Hong Kong-Macao Greater Bay Area city cluster and major global city clusters.

As of December 31, 2020, we had a fleet of 867 aircraft, consisting primarily of Boeing 737, 747, 777, 787 series, Airbus 320, 330, 350, 380 series, EMB 190 series, ARJ 21 series, etc. The average age of our registered aircraft was 7.2 years as of December 31, 2020.

### **Impact of the COVID-19 Pandemic**

The widespread and persistent impact of COVID-19 pandemic and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel. After initially impacting our business in domestic market significantly beginning in January 2020, the spread of the virus resulted in a global pandemic and had significantly affected our entire route network since March 2020. As a result, our business and results of operations in 2020 were materially affected.

In response to the developments of the pandemic, we strictly discharged the responsibilities for pandemic prevention and control and took numerous steps to ensure the safety of our customers and employees, while at the same time seeking to mitigate the impacts on our business and results of operations and to position our business for recovery, including:

- Establishing a leading group for pandemic prevention and control, initiating the highest level response to public health emergency, formulating a plan to provide full support for transportation related to pandemic prevention and control, and adopting a policy of free transportation for supplies for pandemic prevention and control;
- Adopting various precautionary measures for preventing the spread of COVID-19, including enhancing cleaning and sanitizing procedures on the ground and in the air, taking steps to help employees and customers practice social distancing and reducing physical touch points, and implementing government-mandated face-covering and body temperature checking requirements;
- Making adjustments to our operational capacity by temporarily suspending or reducing the number of flights of certain routes, including those routes to and from high risk countries, exploring with our partners or suppliers the possibility of postponing the delivery of new aircraft, and seizing market opportunities to increase freight revenue; and



- Strengthening our cost control by encouraging employees to take voluntary leave with reduced pay during the initial period of the pandemic when our capacity was significantly reduced, and carrying out lean cost control management including implementation of cost-reduction and efficiency-enhancement measures and strict control of the cost of jet fuel and landing fees.

During the reporting period, we operated a total of 19,000 flights to assist the prevention and control of the pandemic, transported 25,000 medical personnel and 29,000 tons of supplies, and brought back 24,000 stranded Chinese citizens and overseas Chinese. We recorded zero infection among passengers on board for both international and domestic flights, and zero infection among all our employees at work. We had a number of meritorious models and were highly praised by government authorities and others.

## **Route Network**

### *Overview*

We operate the most extensive route network among all Chinese airlines. As of December 31, 2020, we operated 1,457 routes consisting of 1,195 domestic routes, 34 regional routes and 228 international routes.

We continually evaluate our network of domestic, regional and international routes in light of our operating profitability and efficiency. We seek to coordinate flight schedules with the Airline Subsidiaries on shared routes to maximize load factors and utilization rates. The operation of domestic, regional and international routes is subject to approval of the CAAC, and the operation of regional and international routes is also subject to agreements between the Chinese government and the government of the Hong Kong SAR, the government of the Macau SAR, the government of Taiwan province and the government of the proposed foreign destination. In 2020, due to the COVID-19 pandemic and its negative impact on the air travel demand in domestic and international market, as well as the various travel restrictions and boarder control measures implemented by government authorities of China and other countries, we had to make certain adjustments to our routes, including temporarily suspending or reducing the number of flights on some routes. Our domestic routes were significantly affected during the first quarter of 2020 and have been gradually recovering since then, while our international routes have been adversely impacted since the second quarter of 2020 and remained affected as of the date of this Annual Report.

In order to expand our route network, we have entered into code-sharing agreements with several international and domestic airlines, including American Airlines, Aeroflot-Russian Airlines, Alitalia-Linee Aeree Italiane, Air France, British Airways, CSA Czech Airlines, Asiana Airlines, China Airlines, China Eastern Airlines, Delta Air Lines, Emirates Airlines, Etihad Airways, Finnair, Japan Airlines International, KLM Royal Dutch Airline, Korean Air, Mandarin Airlines, Pakistan International Airlines, PT Garuda Indonesia (Persero) Tbk., Qantas Airways Limited, Qatar Airways Company Q.C.S.C., Saudi Arabian Airlines, Sichuan Airlines, Vietnam Airlines, WestJet, Xiamen Airlines, and others. Under the code-sharing agreements, the participating airlines are permitted to sell tickets on certain international routes operated by us to passengers using their codes. Similarly, we are permitted to sell tickets for the other participating airlines using CZ code. The code-sharing agreements help increase the number of our international sales outlets. At present, we share codes with 29 international and domestic airlines in 637 routes, including trunk routes and branch routes.

The following table sets forth certain statistical information with respect to our passenger, cargo and mail traffic for the years indicated.

Year	Passenger carried		Cargo and mail carried (tons)		Total traffic (tons kilometers)	
	Total (in millions)	Increase (decrease) over previous year (%)	Total (in thousand tons)	Increase (decrease) over previous year (%)	Total (in millions)	Increase (decrease) over previous year (%)
2018	139.89	10.76	1,732	3.6	30,334	11.03
2019	151.63	8.4	1,764	1.8	32,625	7.55
2020	96.86	(36.12)	1,461	(17.17)	20,805	(36.23)

### **Route Bases**

In addition to our main route bases including Guangzhou and Beijing as core hubs, we maintain regional route bases in Urumqi, Chongqing, Zhengzhou, Wuhan, Changsha, Shenzhen, Shenyang, Changchun, Dalian, Harbin, Haikou, Zhuhai, Xiamen, Shanghai, Xi'an, Fuzhou, Nanning, Guilin, Shantou, Guiyang, Sanya, Chengdu and Kunming. Most of our regional route bases are located in provincial capitals or major commercial centers in the PRC.

We believe that our extensive network of route bases enables us to coordinate flights and deploy our aircraft more effectively and to provide more convenient connecting flight schedules and access service and maintenance facilities for our aircraft. We believe that the number and location of these route bases may enhance our ability to obtain the CAAC's approval of requests by our Group to open new routes and provide additional flights between these bases and other destinations in China. Current regulations of the CAAC generally limit airlines to operations principally conducted from their respective route bases.

### **Domestic Routes**

Our domestic routes network serves substantially all provinces and autonomous regions in China, including Guangdong, Fujian, Hubei, Hunan, Hainan, Guangxi, Guizhou, Henan, Heilongjiang, Jilin, Liaoning, Sichuan, Yunnan, Shannxi and Xinjiang and serves all four centrally-administered municipalities in China, namely, Beijing, Shanghai, Tianjin and Chongqing. In 2020, our most profitable domestic routes were: Haikou-Guangzhou, Xinyang-Guangzhou, Guangzhou-Xinyang, Urumqi-Sanya, Hanzhong-Shenzhen, Shenzhen-Wuhan, Shiyang-Guangzhou, Shenzhen-Hanzhong, Guangzhou-Haikou, and Nyingchi-Chongqing-Zhuhai.

### **Regional Routes**

We offer scheduled service between Hong Kong and Beijing, Shenyang, Meixian, Wuhan, Yiwu; and between Taipei and Guangzhou, Zhengzhou, Changchun, Dalian, Zhangjiajie, Changsha, Harbin, Guiyang, Guilin, Nanning, Shanghai, Shenyang, Jieyang, Shenzhen, Wuhan, Shijiazhuang, Yiwu and Urumqi; and between Macau and Chongqing, Changsha, Wuhan. In 2020, the most profitable scheduled regional routes were: Shenzhen-Taipei, Guangzhou-Taipei, Macao-Wuhan, Macao-Changsha, Changsha-Taipei, Taipei-Changsha, Wuhan-Taipei, Taipei-Harbin, Jieyang-Taipei, and Nanning-Taipei.

In 2020, we conducted a total of 2,708 flights on our regional routes.

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Other than that, travelers between Taiwan and Mainland China had to make use of intermediate stops in Hong Kong or elsewhere. Since July 2008, however, the ban on direct flights was further liberalized to allow direct charter flights on weekends. We were the first Chinese carrier to fly nonstop to Taiwan. On November 4, 2008, the Mainland China and Taiwan agreed to have regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan increased the number of regular cross-Strait direct passenger flights from 108 to 270 a week. In 2020, before the outbreak of the COVID-19 pandemic, we planned to operate 16 routes to Taiwan, which were successively reduced to one (Shanghai Pudong-Taipei) due to CAAC's requirements in response to the COVID-19 pandemic. As of December 31, 2020, only one route (Shanghai Pudong-Taipei) was retained.

### **International Routes**

We are the principal Chinese airline serving Southeast Asian destinations and Australasia, including Singapore and major cities in Australia, Bangladesh, Cambodia, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Vietnam.

In addition, we also provide scheduled services to cities in Australia, Azerbaijan, Bangladesh, Cambodia, Canada, Dutch, France, German, India, Indonesia, Iran, Italy, Japan, Kenya, Kazakhstan, Kyrgyzstan, Malaysia, Maldives, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Tajikistan, Thailand, Turkmenistan, United Arab Emirates (UAE), United Kingdom, United States of American (USA), Uzbekistan, and Vietnam.

In 2020, our most profitable international routes were: Los Angeles-Guangzhou, Amsterdam-Guangzhou, London-Guangzhou, Vancouver-Guangzhou, Sydney-Guangzhou, Phnom Penh-Guangzhou, Tokyo-Shenyang, Kuala Lumpur-Guangzhou, Paris-Guangzhou, and Yangon-Guangzhou. In 2020, our international operations were severely affected by the impact of the COVID-19 pandemic. See Item 3. “Key Information – Risk Factors – The outbreak and global spread of COVID-19 and the persistence of the resulting pandemic have had a material adverse effect on our business. The duration and severity of the pandemic, and similar public health threats or a large scale natural disaster we may face in the future, could result in additional adverse effects on our business”.

### **Aircraft Fleet**

Our fleet plan in recent years emphasized expansion and modernization through the acquisition of new aircraft and the retirement of less efficient and old aircraft. As of December 31, 2020, we operated a fleet of 867 aircraft with an average age of 7.2 years. Most aircraft of our Group are Boeing and Airbus aircraft. We have the largest fleet among Chinese airline companies. Please see the table below for an analysis of our aircraft in terms of average age and respective passenger capacity.

<b>Model</b>	<b>Number of Aircraft</b>	<b>Passenger Capacity</b>
Airbus 380 series	5	506
Airbus 350 series	8	314
Airbus 330 series	45	218/258/259/260/278/283/284/286
Airbus 320 series	325	94/130/138/152/160/166/179/189/195/200/208
Boeing 787 series	37	237/266/276/287/297
Boeing 777 series	15	361
Boeing 737 series	401	128/134/159/161/164/169/170/172/178/184
EMB190	9	98
ARJ21 Series	6	90
Boeing 747 series Freighter	2	N/A
Boeing 777 series Freighter	14	N/A
Total	867	N/A

In 2020, in order to reduce the operation loss caused by the COVID-19 pandemic, we postponed our new aircraft delivery and expedited the retiring process of old aircraft models and those whose market value has declined. Meanwhile we continue to modernize our fleet by taking the delivery of some new generation aircraft. We

- (i) took scheduled delivery of 22 aircraft under purchase agreements, including four A320neo aircraft, eight A321neo aircraft, two A350 aircraft, six ARJ21 aircraft and two B777F aircraft;
- (ii) took scheduled delivery of ten A321neo aircraft under operating leases;
- (iii) returned 27 aircraft under operating leases upon expiry, including five A319 aircraft, nine A320 aircraft, two A330-300 aircraft and 11 E190 aircraft; and
- (iv) disposed no aircraft.

During 2020, Xiamen Airlines took scheduled delivery of two ARJ21 aircraft under financing leases and one ARJ21 aircraft purchased by its own funds.

## Aircraft Financing Arrangements

### Overview

As of December 31, 2020, a significant portion of our aircraft is acquired under long-term leases with remaining terms to maturity mainly ranging from one to twelve years. As of December 31, 2020, of our Group's 867 aircraft, 571 aircraft were operated under leases and 296 were either owned aircraft financed by long-term loans, or acquired either with cash proceeds or acquired by exercising the purchase options upon expiry of the respective leases. Our planned acquisition of aircraft in the foreseeable future will generally be made through acquisition by bank loans and our own funds or under lease arrangements. Our determination as to our acquisition strategy depends on our evaluation at the time of our capacity requirements, anticipated deliveries of aircraft, our capital structure and cash flow, prevailing interest rates and other general market conditions.

The following table sets forth, as of December 31, 2020, the number of aircraft operated by our Group pursuant to leases and the average remaining terms.

Model	Financing Lease Number of Aircraft	Operating Lease Number of Aircraft	Average Remaining Lease Term Year
Boeing 787 series	25	8	6.60
Boeing 777 series	14	0	6.70
Boeing 737 series	76	163	5.03
Airbus 380 series	1	0	2.17
Airbus 350 series	6	0	8.83
Airbus 330 series	29	12	5.43
Airbus 320 series	100	124	6.47
EMB190	0	3	0.25
ARJ21	3	0	5.78
Boeing 777 series Freighter	7	0	6.85
Boeing 747 series Freighter	0	0	0
<b>Total</b>	<b>261</b>	<b>310</b>	<b>5.79</b>

Pursuant to the terms of the leases, our Group, as the lessee, is responsible during the lease term for the maintenance, service, insurance, repair and overhaul of the aircraft. Certain of our leases cover a significant portion of the relevant aircraft's useful life and have an option to purchase the aircraft at or near the end of the lease term. For all other leases, we have no option to purchase the aircraft and are required to return the aircraft in the agreed condition at the end of the lease term. In 2020, in response to the reduced air travel demand resulted from the COVID-19 pandemic, we reached agreements with aircraft manufacturers to postpone the delivery of 15 new aircraft, including eight A320 series aircraft, four A350 aircraft, two 787-9 aircraft and one 777-300ER aircraft. Accordingly, our payment obligations under such leases (amounting to US\$595 million) were also postponed. Our aggregate future minimum lease payments required under leases were RMB140,776 million as of December 31, 2020.

### Aircraft Flight Equipment

The jet engines used in our aircraft fleet are manufactured by General Electric Corporation, Rolls-Royce plc, United Technologies International, Inc., CFM International, Inc. and International Aviation Engines Corporation. We had 94 and 93 spare jet engines for our fleet as of December 31, 2020 and 2019, respectively. We determine our requirements for jet engines based on all relevant considerations, including manufacturers' recommendations, the performance history of the jet engines and the planned utilization of its aircraft. Acquisition of rotables and certain of the expendables for our aircraft are generally handled by Southern Airlines (Group) Import and Export Trading Company Limited ("SAIETC"), a subsidiary we acquired from CSAH in August 2016, in consideration of an agency fee. We arrange the ordering of aircraft, jet engines and other flight equipment for the Airline Subsidiaries and keep an inventory of rotables and expendables for the Airline Subsidiaries.

## **Aircraft Maintenance**

A major part of the maintenance for our fleet other than overhauls of jet engines is performed by Guangzhou Aircraft Maintenance Engineering Company Limited (“GAMECO”), an entity jointly controlled by our Company, Hutchison Whampoa (“Hutchison”) and South China International Aircraft Engineering Company Limited, consistent with our strategy to achieve fully integrated airline operations and to assure continued access to a stable source of high quality maintenance services. The remaining part of the maintenance for our fleet other than overhauls of jet engines is performed by service providers in China and overseas. GAMECO performs all types of maintenance services, ranging from maintenance inspections performed on aircraft (“line maintenance services”) to major overhaul performed at specified intervals. GAMECO was the first of three aircraft maintenance facilities in China that has been certified as a repair station by both the CAAC and the Federal Aviation Administration. In March 1998, GAMECO received the Joint Civil Aviation Authorities certificate, which was transferred to European Aviation Safety Agency certification in November 2004, for the repair and maintenance of aircraft.

We believe that GAMECO performs major maintenance checks on our aircraft within time periods generally consistent with those of large international airline maintenance centers. In 2020, more than 44% of the repair and maintenance including overhaul of our Company were performed by GAMECO. Although rotables for our aircraft are generally imported through SAIETC, a portion of expendables and other maintenance materials are directly imported by GAMECO. Our agreement with GAMECO usually has a term of one year.

Overhauls of jet engines are performed by MTU Maintenance Zhuhai Co., Ltd., or Zhuhai MTU, a jointly controlled entity of the Company and MTU Aero Engines GmbH, and also by domestic qualified service providers in Xiamen (TEXL), Hong Kong (HAESL) and Taiwan (EGAT), Beijing (AMECO) and by overseas qualified service providers in USA, Germany, Korea, Singapore, France, Netherlands and Scotland.

The amounts incurred by our Group for comprehensive maintenance services provided by GAMECO and Zhuhai MTU were RMB4,104 million, RMB5,381 million, and RMB4,521 million for the years ended December 31, 2020, 2019 and 2018, respectively.

## **Safety**

We endeavor to maintain strict compliance with all laws and regulations applicable to flight safety. In addition, we have adopted measures to eliminate or minimize factors that may impair flight safety, including specialized training programs and safety manuals. The Air Safety Management Department of our Company implements safety-related training programs on an on-going basis in all of our operations to raise the safety awareness of all employees. As a result, overall flight safety has gradually improved. For “incidents” which include various events and conditions prescribed by the CAAC that do not involve serious personal injury or material damage to flight equipment, our Group has kept the number consistently below what is prescribed by the CAAC. For example, our “Air Transportation Incidents Per Ten Thousands Hours Ratio” was 0, 0.0088, and 0.0047 in 2020, 2019 and 2018, respectively. In comparison, CAAC’s published maximum acceptable Air Transportation Incidents Per Ten Thousands Hours Ratio was 0.06, 0.06, and 0.06 in 2020, 2019 and 2018, respectively. This ratio is defined as the number of occurrences of air transportation incident for every 10,000 hours of flight time. In 2008, we received the “Five-Star Flight Safety Award” from CAAC, being the first in domestic aviation industry to receive such a great honor. Subsequently in 2012, we were awarded the “Safe Flight Diamond Award” by CAAC for our 10,000,000 safety flight hours record. On June 15, 2018, our Company was honored with the 2-Star Flight Safety Diamond Award by the CAAC, becoming the leading Chinese carrier to maintain the highest safety records in China. By December 31, 2020, our continuous safe flight span were 28.466 million hours.

In 2020, we strictly followed the guidance of the Chinese government authorities on the prevention of the COVID-19 pandemic and implemented various relevant safety measures. Following the outbreak of the pandemic, we immediately established a leading group for pandemic prevention and control, initiated the highest level response to public health emergency, formulated a plan to provide full support for anti-pandemic transportation, reduced flights to high risk countries and regions, and implemented protection measures for employees and control measures for passengers. We recorded zero infection among all passengers on board in international and domestic flights and zero infection among all employees at work.

## **Jet Fuel**

Jet fuel costs typically represent a major component of an airline's operating expenses. Our jet fuel costs accounted for 17.2%, 28.8%, and 30.6% of our operating expenses for the years ended December 31, 2020, 2019 and 2018, respectively. Like other Chinese airlines, we generally purchase our jet fuel from regional branches of CAOSC and Bluesky Oil Supplies Company, except at Shenzhen, Sanya, Haikou and Shanghai Pudong where jet fuel is supplied by Sino-foreign joint venture in which CAOSC is a joint venture partner. CAOSC is a State-owned organization controlled and supervised by the CAAC that controls the importation and distribution of jet fuel throughout China.

Jet fuel obtained from CAOSC's regional branches is purchased at a market-adjusted price set within a specified range based on the guidance price issued by CAOSC with the approval of the CAAC and the pricing department of the NDRC. As a result, the costs of transportation and storage of jet fuel in all regions of China are spread among all domestic airlines. Jet fuel costs in China are influenced by costs at state-owned oil refineries and limitations in the transportation infrastructure, insufficient storage facilities for jet fuel in certain regions of China, and the prevailing fuel prices on the international market. In 2020, due to the complex and evolving global political environment, and the increasing downward pressure on the global economy, there were uncertainties for both supply and demand of international crude oil. In the beginning of 2020, international crude oil prices fell and fluctuated sharply, and then slowly rebounded in a V-shaped trend.

In addition to purchases of jet fuel from CAOSC, we also purchase a portion of our jet fuel requirements for our international flights from foreign fuel suppliers located outside China at prevailing international market prices. Jet fuel purchased from such sources accounted for approximately 17.13% and 11.44% of our total jet fuel consumption in 2019 and 2020, respectively.

Our jet fuel costs decreased from RMB42,814 million in 2019 to RMB18,797 million in 2020, as a result of the decrease in traffic volume due to the impact of COVID-19 pandemic and the decrease in fuel prices.

## **Fuel Surcharge**

Our profit for the year may suffer from an unexpected change in the fuel surcharge collection policies and other factors beyond our control. The level of fuel surcharges, which is regulated by Chinese government, affects domestic customers' air travel demand as well as our ability to generate profits. On January 14, 2009, the NDRC and the CAAC jointly announced that the collection of passenger fuel surcharge for domestic routes should be suspended from January 15, 2009 onwards. Subsequently, in response to the increase in international fuel prices, the NDRC and CAAC issued a notice on November 11, 2009 to introduce a new pricing mechanism of fuel surcharge that links it with airlines' jet fuel costs, which was further adjusted subsequently.

From April 1, 2015, the NDRC adjusted the benchmark oil price to RMB5,000 per ton, for every RMB100 by which the cost of jet fuel exceeds that price, the airlines are allowed to charge RMB0.00002566 per kilometer for the flight distance. Based on that rate, for every RMB100 by which the cost of jet fuel exceeds RMB5,000 per ton, the airlines are allowed to charge RMB0.00002566 per kilometer for the flight distance. The NDRC decreased the rate of fuel surcharge from RMB0.00002566 per kilometer to RMB0.00002454 per kilometer, from April 1, 2019.

## **Flight Operations**

Flight operations for our flights originating in Guangzhou are managed by our flight operations and marketing divisions, which are responsible for formulating flight plans and schedules consistent with route and flight approvals received from the CAAC. Our flight operations center in Guangzhou is responsible for the on-site administration of flights, including the dispatch and coordination of flights, deployment of aircraft, ground services and crew staffing. In addition, each of the Airline Subsidiaries maintains flight operations centers at all servicing airports for on-site administration of their flights. Our system operations control (SOC) are responsible for monitoring conditions of our route network, administering our flight plans, collecting and monitoring navigation data and analyzing and monitoring airport conditions.

To enhance our management of flight operations, we have launched and continued optimizing a new system to manage the whole flight operation process, covering flight plan production, aeronautical information processing, meteorological analysis, operation monitoring, flight deployment and other operational activities, which advanced our operation management in a more intelligent and digitalize way and improved our flight operation efficiency. We also established and improved the backup system to enhance our risk-resistance ability. We believe such system will assist us in preventing major operational risks, including from power failure, terrorist attack, hacker attack and equipment or software failure.

## **Training of Pilots and Flight Attendants**

We believe that our pilot training program has significantly improved the quality of the training received by our pilots and has helped maintain the quality of our staff of pilots at a level consistent with the expansion of operations called for by our business strategy.

As part of the pilot training program, trainee pilots receive their initial training in the operation of a specific aircraft with Zhuhai Xiang Yi Aviation Technology Company Limited (“Zhuhai Xiang Yi”), a wholly-owned subsidiary of the Company, which also provides training to pilots from other Chinese airlines. Zhuhai Xiang Yi is equipped with simulators for majority models of aircraft currently operated by us and provides flight simulation training services to us.

Our pilots are required to be licensed by the CAAC, which requires an annual proficiency check. Our pilots attend courses in simulator training twice annually and in emergency survival training once annually. We also conduct regular advanced training courses for captains and captain candidates. Pilots advance in rank based on number of hours flown, types of aircraft flown and their performance history.

We conduct theoretical and practical training programs for our flight attendants at our Flight Attendants Training Center in Guangzhou (the “Guangzhou Training Center”). The Guangzhou Training Center is equipped with computerized training equipment, as well as simulator cabins for all models of aircraft currently operated by us. At the Guangzhou Training Center, our flight attendants receive comprehensive training in in-flight service, emergency evacuation and water rescue.

## **Ground Services**

We make arrangements with airport authorities, other airlines or ground services companies for substantially all ground facilities, including runway, ramp, terminal and support services buildings, at each airport that they serve. We pay landing, parking and other fees to such airports, including Guangzhou Baiyun International Airport. At domestic airports, such fees are generally determined by CAAC.

At Guangzhou Baiyun International Airport, we operate our own passenger check-in, cargo, mail and baggage handling, aircraft maintenance and cleaning services. We also provide such services to our customer airlines that operate in Guangzhou Baiyun International Airport.

Ground services at the airports, such as those in Shenzhen, Changsha, Wuhan, Zhengzhou, Haikou, Zhuhai, Xiamen, Guilin, Jieyang, Guiyang, Shenyang, Harbin, Dalian, Changchun, Sanya, Nanning, Chongqing, Shanghai Hongqiao, Shanghai Pudong and Urumqi, are operated directly by the Group. Ground services at the airport in Beijing have been primarily provided by Beijing China Southern Airlines Ground Services Co., Ltd, which became a wholly-own subsidiary of the Company in June 2009. Ground services at other airports in China are provided to us by local airport authorities or local airlines in accordance with relevant service agreements. Ground services at airports outside China are provided to us by foreign services providers in accordance with relevant service agreements with such parties. All our such agreements are short-term and otherwise on customary terms in the industry.

### **Air Catering**

We own a 70.5% equity interest in Guangzhou Nanland Air Catering Company Limited (“Nanland”). Nanland provides in-flight meals, snacks, drinks and related services for all of our flights originating from airports around China. We also contract with various air catering suppliers with respect to in-flight catering services for flights originating from other airports, generally on an annual basis and otherwise on customary terms in the industry. Following the onset of the COVID-19 pandemic, we have limited the food and beverage services in certain flights in order to reduce physical touch points.

### **Cargo and Mail**

We also provide air cargo and mail services. A significant portion of these services are combined with passenger flights services. In 2020, we had two Boeing 747 freighters and 14 Boeing 777 freighters, mainly servicing 19 international cargo routes, including:

Guangzhou–Chongqing–Amsterdam–Guangzhou, Guangzhou–Amsterdam–Guangzhou, Guangzhou–London–Frankfurt–Guangzhou, Guangzhou–Frankfurt–Guangzhou, Guangzhou–Anchorage–LosAngeles–Guangzhou, Guangzhou–HoChiMinhCity–Hanoi–Guangzhou, Guangzhou–Chongqing–Frankfurt–Guangzhou, Guangzhou–London–Guangzhou, Guangzhou–London–Shenzhen, Shenzhen–Frankfurt–Guangzhou, Shenzhen–Frankfurt–Shenzhen, Shenzhen–Anchorage–Chicago–Shenzhen, Shenzhen–Frankfurt–ShanghaiPudong, ShanghaiPudong–Anchorage–Chicago–Shenzhen, ShanghaiPudong–Amsterdam–Chongqing–ShanghaiPudong, ShanghaiPudong–Amsterdam–ShanghaiPudong, ShanghaiPudong–Frankfurt–ShanghaiPudong, ShanghaiPudong–Anchorage–Chicago–ShanghaiPudong, and ShanghaiPudong–LosAngeles–ShanghaiPudong.

In 2020, following the onset of the COVID-19 pandemic, the demand for freight was significantly increased. We responded actively to seize the opportunity to increase freight revenue, including improving the utilization rate of freighters, and organized 8,431 flights shifts by freighters converted from passenger aircraft, and achieved positive operating results. Cargo and mail revenue was RMB16,493 million in 2020, representing an increase of 71.53% compared to 2019. We also recorded cargo and mail revenue through freighters converted from passenger aircraft of RMB1,278 million in 2020. We conduct our cargo business primarily through our cargo hubs in Guangzhou and Shanghai.

### **Sales, Reservations and Marketing**

#### ***Passenger Ticket Sales and Reservations***

Our ticket sales and reservations are conducted by or through independent sales agents and our own network of exclusive sales offices, as well as the CAAC’s sales offices and CSAH’s affiliates. We have sales offices in Guangzhou and our other route bases. In addition, we maintain regional sales offices in other cities in China, including Beijing and Shanghai. We maintain international sales offices in Almaty, Amsterdam, Ashkhabad, Auckland, Astana, Baku, Bangkok, Bishkek, Busan, Chicago, Daegu, Daejeon, Delhi, Dhaka, Dubai (Sharjah), Dushanbe, Frankfurt, Hanoi, Ho Chi Minh City, Irkutsk, Islamabad, Istanbul, Jakarta, Kathmandu, Khabarovsk, Khudzhand, Kuala Lumpur, London, Los Angeles, Manila, Mexico City, Moscow, New York, Novosibirsk, Nairobi, Osh, Paris, Penang, Phnom Penh, Roma, Seoul, Singapore, Sydney, Tashkent, Tehran, Toronto, Tokyo, Tbilisi, Vancouver, Vladivostok, Vienna, Vientiane and Yangon.



We have agency agreements with airlines in the Asia-Pacific region, Europe, the United States and Africa for the processing of ticket sales and reservations on a reciprocal basis. In 2020, over 59% of all ticket sales for our scheduled flights were made by our network of sales offices and CSAH's affiliates. We also sell tickets and accept reservations through an extensive network of non-exclusive independent sales agents. Under the agency agreements with them, we pay commissions based on the value of tickets sold. In 2020, sales by independent sales agents accounted for less than 41% of our ticket sales of our scheduled flights.

Substantially all of our sales offices and agents in China are linked electronically to the TravelSky Technology Limited's computerized ticketing and reservations system, which is in turn linked to all domestic airlines for flights throughout China. We have also entered into membership agreements with several international reservation systems, including ABACUS in Southeast Asia, SABRE and GALILEO in the United States, AMADEUS in Europe and INFINI in Japan. These systems facilitate reservations and sales of tickets for our international flights. Since 2016, we have been focusing on improving the digitalization and intelligence level. We have launched the "China Southern e Travel" strategy, which aims to explore the needs of passengers and plan and design products from the perspective of passengers. We have built a number of quality products such as flight dynamics, seat selection and check-in, electronic invoices, face recognition, full-channel self-service refund, and meal service. The grand vision of "a hassle-free journey with one mobile device" has become a reality in technology, and the digitalization of the entire process of passenger travel has been realized. In 2018, we released the "Internet +" strategy centering on "China Southern e Travel", and formally built a one-stop service mobile application platform to provide passengers with excellent door-to-door service experience. We believe technology has become one of our core competitive advantages.

In 2020, due to the outbreak of the COVID-19 pandemic and several regional resurgence cases, we experienced significant ticket cancellations and waived the relevant cancellation or change fees chargeable to consumers to a substantial extent either based on the change or cancellation policy we voluntarily adopted or in accordance with the orders or notices issued by the Chinese government authorities.

### ***Cargo***

Our cargo and mail services are promoted through our own cargo divisions and independent cargo agents both within and outside China that track available space among all airlines. In particular, our Company employs a number of cargo agents in the Pearl River Delta region. In 2020, we generally pay the cargo agents an average commission of 0.15% of the relevant cargo freight rate for domestic and international services, and a commission of 0.29% to cargo agents in the Pearl River Delta region.

### ***Promotional and Marketing Activities***

We engage in regular promotional and marketing activities to increase our market share. Our promotional and marketing activities for domestic routes emphasize safety, passenger comfort and the frequency of our flights. Our promotional and marketing activities for international and regional passengers emphasize our quality of service, extensive route network in China and higher frequency of flights compared to other Chinese airlines. We were among the first to launch premium economy class seats. In addition, we also promote and market our regional and international routes on the basis of price competitiveness.

We seek to increase our brand recognition by offering new services to passengers. For example, we were the first Chinese airline to provide off-airport check-in services. We also offered transfer and baggage "through-handling" services to passengers connecting to other airlines, including passengers connecting in Hong Kong for flights to Taiwan. We widened our use of information technology and introduced new services such as cell phone check-in, SMS platforms and online meal booking. In 2017, our Company reached a strategic cooperation agreement with American Airlines. Under this agreement, American Airlines subscribed our Company's shares in August 2017 in the amount of USD200 million. Our Company and American Airlines also established a code sharing partnership on January 18, 2018 to provide more convenient and diversified trip options for passengers.

As an important strategic decision, we have officially exited from SkyTeam Alliance from January 1, 2020 and focused on establishing cooperation with new strategic partners, while maintaining good relationships with the SkyTeam partners. We have had a Strategic Cooperation Agreement with American Airlines since 2017 and implemented full scope codeshare cooperation, Frequent Flyer Programs cooperation and lounge services since 2019.

We have also entered into a Joint Business Agreement with British Airways and implemented enhanced codeshare cooperation in 2019. Although no longer a member of SkyTeam, CZ continues the codeshare cooperation with SkyTeam partners, including AirFrance-KLM, and other important joint business partners. We will continue to properly carry out the work of exit and fully guarantee the rights and interests of passengers. We will carry out bilateral and multilateral cooperation in a more targeted manner while deepening the cooperation with the existing partners such as France Airlines and KLM Royal Dutch Airlines, expand code sharing and frequent passenger cooperation with American Airlines, and launch strategic cooperation with numbers of internationally renowned airlines such as Finnair and Emirates to provide passengers with more convenient and high-quality travel options. At the same time, we continue to strengthen the coordinated development of the “China Southern Alliance” by gradually integrating with Xiamen Airlines and Sichuan Airlines in terms of capacity layout, route cooperation, resource sharing and customer collaboration. At present, we share codes with 29 international and domestic airlines, such as American Airlines, British Airways, KLM Royal Dutch Airlines and Qantas Airways in 637 routes (including trunk routes and beyond routes). This further enlarged our sales channels and flight route network.

To enhance relationships with our passengers, we have launched two major frequent flyer programs, namely the “China Southern Airlines Sky Pearl Club” and the “Xiamen Airlines’ Egret Card Frequent Flyer Program”. By the end of 2020, we had over 60 million members (including those of Xiamen Airlines) under these programs.

## **Regulation**

The Chinese commercial aviation industry is subject to a high degree of regulation and oversight by the CAAC. Regulations and policies issued or implemented by the CAAC encompass substantially all aspects of airline operations, including route allocation, pricing of domestic airfare, the administration of air traffic control systems and certain airports, air carrier certifications and air operator certification and aircraft, registration and aircraft airworthiness certification. The Civil Aviation Law, which became effective in March 1996, provides a framework for regulation of many of these aspects of commercial aviation activities. Although Chinese airlines operate under the supervision and regulation of the CAAC, they are accorded an increasingly significant degree of operational autonomy in the application for domestic, regional and international routes, the allocation of aircraft among routes, the purchase of flight equipment, the pricing of air fares within a certain range, the training and supervision of personnel and their day-to-day operations.

As an airline providing services on international routes, we are also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between China and various other countries. In addition, China is a contracting state, as well as a permanent member, of the International Civil Aviation Organization (the “ICAO”), an agency of the United Nations established in 1947 to assist in the planning and development of international air transport, and is a party to many other international aviation conventions. The ICAO establishes technical standards for the international aviation industry. We believe that we, in all material respects, comply with all such technical standards.

### ***Route Rights***

*Domestic Routes* . The right of any Chinese airline to carry passengers or cargo on any domestic route must be obtained from the CAAC. Non-Chinese airlines are not permitted to provide domestic air service between destinations in China. The CAAC’s policy is to assign a domestic route to the Chinese airline that is best suited to serve the route based, in part, on the location of the airline’s main or regional base at the point of origin. Under current regulations, airlines are generally expected to operate mainly from their route bases, and flights within a particular region are expected to be served by airlines based in that region. We believe that these regulatory parameters benefit airlines, such as our Group, that have a large number of regional route bases. The CAAC also considers other factors that may make a particular airline suitable to operate a domestic route, including the applicant’s general operating authority, compliance with pricing regulations and regulations applicable to safety and service quality, market demand, the ability of the applicant in terms of its existing routes, airport facilities and related support services.

The CAAC considers market conditions for a domestic route in determining whether the route should be allocated to one or more airlines. Generally, the CAAC requires the passenger load factor on certain route should be above the average rate of the whole market in the last flight season before additional flights and participants may be put on that route.

*Regional Routes.* Hong Kong and Macau routes and landing rights are derived from agreements between the Chinese government and the government of the Hong Kong SAR, and between the Chinese government and the government of Macau SAR. The rights to fly between Beijing and Hong Kong, Beijing and Macau, Shanghai and Hong Kong and Shanghai and Macau are allocated by the CAAC among four different Chinese airlines. We understand that the criteria for determining whether a Hong Kong and Macau route will be allocated to a particular airline include market demand, the ability of the airline to service the route and the appropriateness of the airline's aircraft for such route.

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Since July 4, 2008, however, the ban on direct flights has been further liberalized to allow direct charter flights on weekends. On November 4, 2008, the Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan extended the number of regular cross-Strait direct passenger flights from 108 to 270 a week. Cross-Strait direct passenger flights were further increased in the following years, but were significantly reduced in 2020 due to the COVID-19 pandemic.

*International Routes.* International route rights, as well as the corresponding landing rights, are derived from air services agreements negotiated between the Chinese government, through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled service between certain destinations within each of such countries. Upon entering into an air services agreement, the CAAC determines the airline to be awarded such routes based on various criteria, including the availability of appropriate aircraft, flight and management personnel, safety record, the overall size of the airline, financial condition and sufficiency of assets to bear civil liabilities in international air services. These route rights may be terminated by the CAAC under special circumstances. On March 26, 2020, in response to the outbreak of the COVID-19 pandemic worldwide, CAAC issued a notice regarding the reduction of the number of international routes. The notice requires that each PRC airline may only operate one route for flying to and from each foreign country, and no more than one flight can be operated in each week for each such international route. Some international flights of the Company were canceled and the number of the international flights of the Company was substantially reduced following the notice. The timing and extent of the resumption of the canceled routes and flights will depend on the policy of the CAAC.

#### ***Air Fare Pricing Policy***

In recent years, there were a series of air fare reform to deregulate the control on the air fare pricing policy step by step. Pursuant to "Pricing Reform of Domestic Civil Aviation" as approved by the State Council of the PRC effective on April 20, 2004, prices on domestic routes fluctuate freely within a predetermined range. Instead of direct supervision by setting prices of air tickets through a local price bureau, the government provides guidance on domestic flights and domestic civil aviation is controlled by the government indirectly. Market-oriented pricing policy was introduced and pricing system has been adjusted as a result of the above pricing reform. The CAAC and NDRC issued a notice on April 13, 2010, pursuant to which, effective on June 1, 2010, airlines may set first-class and business-class airfares freely in accordance with market prices, subject to relevant PRC laws. The economy-class airfares remain to be subject to the predetermined range. The CAAC and NDRC further issued a notice, pursuant to which, effective on October 20, 2013, airlines are free to set domestic flights airfares not exceeding up to 25% above the bench mark prices where governmental pricing guidance is applicable; and to freely determine the airfares for domestic routes with the market-oriented pricing policy based on the market demand and supply situation.

On September 29, 2016, the CAAC and NDRC further issued the Notice on Deepening the Pricing Reform of Domestic Civil Aviation to further expand the scope of the routes with the market-oriented pricing policy: airfares for the routes below 800 kilometers or the routes above 800 kilometers and in the competing relationship with the high-speed rail EMU trains can be freely determined by airlines. Airlines may raise the non-discounted announced airfares for a certain amount of routes with the market-oriented pricing policy. In principle, such amount shall be no more than 10 per flight season, and the accumulative increase rate of airfares shall be no more than 10 percent per route per flight season. On December 17, 2017, the CAAC and NDRC further issued the Notice on Further Deepening the Pricing Reform of Domestic Civil Aviation, pursuant to which the airlines were allowed to decide their own prices on domestic routes that have at least five carriers competing. Price increases of no more than 10% would be also allowed for each travel season.

For each airline, the total number of the routes which the airline can decide their own price shall be no less than 10 but shall generally not exceed 15% of the total number of the market-oriented routes operated by such airline in one flight season. On April 13, 2018, CAAC issued the Notice on Distributing the Catalog of Domestic Routes adopting Market Regulation Price. The catalog of domestic routes is published together with such notice.

On November 26, 2020, CAAC and NDRC issued the Notice on Further Deepening the Pricing Reform of the Domestic Routes of Domestic Civil Aviation to further expand the scope of routes that may adopt market-oriented pricing policy. Under the Notice, airlines are allowed to decide their own prices on domestic routes that have at least three competing carriers, rather than previous five competing carriers. The catalog of domestic routes that qualify for adopting market-oriented pricing as a result of the new requirement is published together with such notice. The notice became effective on December 1, 2020.

Published air fares of Chinese airlines for the Hong Kong and Taiwan routes are determined by the CAAC and the relevant civil aviation authorities in Hong Kong or Taiwan. Airlines may offer discounts on flights on their Hong Kong and Taiwan regional routes.

Published air fares of Chinese airlines for international routes (except for Japan) are determined by Chinese airlines at their own discretion, taking into account the international air fare standards established through the International Air Transport Association. For Japan routes, air fares must be approved by the relevant civil aviation authorities in Japan, and discounting of published international air fares is permitted.

#### ***Acquisition of Aircraft and Flight Equipment***

If a Chinese airline plans to acquire an aircraft, the airline must first seek approval from the CAAC and NDRC. The airline must, as a condition of approval, provide specific acquisition plans, which are subject to modification by the CAAC and NDRC. If the CAAC and NDRC approve an aircraft acquisition, the airline negotiates the terms of the acquisition with the manufacturer together with China Aviation Suppliers Holding Company (“CASC”), an entity controlled by CAAC, because CASC possesses the license required to import or export aircraft, and CASC receives a commission in respect thereof. Most Chinese airlines are also required to acquire their aircraft engines, spare parts and other flight equipment through CASC. Our Company and a few other Chinese airlines are permitted to import jet engines and other flight equipment for their own use without the participation of CASC. In the case of our Company, SAIETC acts as our import agent and receives an agency fee for our services.

#### ***Jet Fuel Supply and Pricing***

CAOSC and Bluesky Oil Supplies Company, companies supervised by the CAAC, are the only jet fuel supply companies in China, with the exception of the joint venture jet fuel supply companies that supply Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports. As a result, all Chinese airlines purchase their domestic jet fuel supply requirements (other than the above mentioned exceptions) from the seven regional branches of CAOSC. Jet fuel obtained from such regional branches is purchased at a market-adjusted price set within a specified range based on the guidance price issued by CAOSC with the approval of the CAAC and the pricing department of the NDRC.

#### ***Safety***

The CAAC puts the improvement of air traffic safety in China on a high priority and is responsible for the establishment of operational safety, maintenance and training standards for all Chinese airlines. The Chinese airlines are required to provide monthly flight safety reports to the CAAC, including reports of flight or other incidents or accidents and other safety related problems involving such airline’s aircraft occurring during the relevant reporting period. The CAAC periodically conducts safety inspections on individual airlines.

Every pilot is required to pass CAAC-administered examinations before obtaining a pilot license and is subject to an annual recertification examination.

All aircraft operated by Chinese airlines, other than a limited number of leased aircraft registered in foreign countries, are required to be registered with the CAAC. All aircraft operated by Chinese airlines must have a valid certificate of airworthiness, which is issued annually by the CAAC. In addition, maintenance permits are issued to a Chinese airline only after its maintenance capabilities have been examined and assessed by the CAAC. Such maintenance permits are renewed annually. All aircraft operated by Chinese airlines may be maintained and repaired only by CAAC-certified maintenance facilities, whether located within or outside China. Aircraft maintenance personnel must be certified by the CAAC before assuming aircraft maintenance positions.

### ***Security***

The CAAC establishes and supervises the implementation of security standards and regulations for the Chinese commercial aviation industry. Such standards and regulations are based on Chinese laws, as well as standards developed by international commercial aviation organizations. Each airline and airport in China is required to submit to the CAAC an aviation security handbook describing specific security procedures established by such airline or airport for the day-to-day operations of commercial aviation and procedures for staff training on security. Such security procedures must be based on relevant CAAC regulations and international commercial aviation treaties. Chinese airports and airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements.

### ***Noise and Environmental Regulation***

All airlines in China must comply with the noise and environmental regulations of the PRC State Environmental Protection Agency. Applicable regulations of the CAAC permit Chinese airports to refuse to grant take-off and landing rights to any aircraft that does not comply with noise regulations.

### ***Chinese Airport Policy***

The CAAC supervises and regulates all civilian airports in China. The local government of the PRC manages the administration of most civilian airports in China. Airports in China are also subject to regulation and ongoing review by the CAAC, which determines take-off and landing charges, as well as charges for the use of airports and airport services.

### **Competition**

The CAAC's extensive regulation of the Chinese commercial aviation industry has had the effect of managing competition among Chinese airlines. Nevertheless, competition has become increasingly intense in recent years due to a number of factors, including relaxation of certain regulations by the CAAC, an increase in the number of Chinese airlines and an increase in the capacity, routes and flights of Chinese airlines.

In the Chinese aviation industry, the three dominant airlines are our Group, Air China and China Eastern Airlines Corporation Limited (the "China Eastern Airlines"). In 2020, these three airlines together controlled approximately 57% of the commercial aviation market in China as measured by the number of passengers carried.

Most major Chinese airlines in recent years significantly expanded their fleets, while at the same time passenger traffic may not increase proportionately. In some years, this resulted in a reduction in our passenger load factors. As a result, we are required to be more competitive with respect to, for example, quality of service, including ticketing and reservations, in-flight services, flight scheduling and timeliness. The development of the COVID-19 pandemic may also have influence on the competition dynamic among us and our Chinese airline competitors, due to our relatively greater focus on the domestic market compared to our competitors, see "Item 3, Key Information – Risk Factors – We face increasingly intense competition in both domestic and international markets, which may materially and adversely affect our business" for more discussion on competition.

We also face competition from the increased use of high-speed railways. We expect that improvements in high-speed railways will continue to erode the aviation market. First, the “eight horizontal and eight vertical” high-speed railway corridors are gradually being perfected. Second, in the future, the railway system will gradually release its own pricing, adopt flexible pricing and market pricing. Passengers will be able to get discounts on more routes. Third, one-third of high-speed railway will speed up, which may attract more passengers. The competition on passengers whose trip distance are from 800 kilometers to 1,000 kilometers is intense, and with increasing speed, high-speed railways may attract passengers who travel longer than 1,000 kilometers. In addition, the operational efficiency of high-speed railways and train capacity will increase. According to data released by China State Railway Group Co., Ltd., by the end of 2020, China’s railway operating mileage had reached 146,300 kilometers, of which high-speed rail mileage reached 37,900 kilometers. By 2035, the national railway network is expected to reach about 200,000 kilometers, including about 70,000 kilometers of high-speed rail. Cities with populations of over 500,000 will be connected with high-speed rail lines so as to form the city connections within travel ranges of one, two and three hours respectively. The operating speed of high-speed rail has continued to increase since 2007, with the maximum operating speed increasing from 250 kilometers per hour to 350 kilometers per hour. Further improvements are expected in the future. The operating results of the Company’s routes that overlap with the high-speed rail network (especially routes with mileage of no more than 800 kilometers) will be impacted in the future to a certain extent.

We believe that our Company possesses certain competitive advantages as compared to other Chinese airlines. We have the most extensive route network and the largest number of regional route bases among Chinese airlines, which we believe places us in a favorable position in the route allocation process. We also have the largest aircraft fleet among all Chinese airlines, which, together with our planned aircraft acquisitions, will permit us to expand our operations and to improve the deployment of the aircraft in our fleet. We also believe that our dominant presence in the populous and economically developed southern and central regions of China provides us with a competitive advantage in attracting new customers, and our fully integrated flight training, aircraft and engine maintenance and air catering operations enable us to achieve and maintain high quality service to our customers. We have also launched the construction of an integrated service, built a first-class international service brand, and continuously improved service quality. Our brand influence has continued to increase at home and abroad. In 2020, we were positioned to offer “affinity and refinement” service, broke down barriers between various systems and departments, have implemented a full-chain, systematic and integrated service management. With a series of new services, products and service measures rolled out, the service quality and flight on-time performance rate of the Company have increased, and are among the strongest in the industry. The Company was re-awarded “National Benchmarking Enterprise of Customer Satisfaction”. In 2020, we comprehensively promoted the “Ecosphere strategy”, reinforced the construction of e-commerce platform, and created a one-stop service platform for mobile users. The concept of “a hassle-free journey with one mobile device” has been fully realized. We have an accumulative number of 56.46 million of APP registrants and an accumulative number of 39.38 million social media followers, ranked first in Asian airlines. Many key indicators, such as the number of APP activations and the number of the social media followers, continue to lead in the industry.

The following table sets forth our market share of passengers carried, cargo and mail carried and total traffic of Chinese airlines for the years indicated based on the CAAC statistics briefing.

Year	Passengers Carried		Cargo and Mail Carried (tons)		Total Traffic (tons kilometers)	
	Industry Total (in millions)	Group’s Share (% of total)	Industry Total (in thousands)	Group’s Share (% of total)	Industry Total (in billions)	Group’s Share (% of total)
2016	487.8	23.5	6,669	22.7	96.1	25.4
2017	551.6	25.2	7,058	23.7	108.3	22.9
2018	611.7	22.9	7,385	23.5	120.7	25.1
2019	659.9	23.0	7,532	23.4	129.3	25.2
2020	417.8	23.2	6,766	21.6	79.9	26.1

### **Domestic Routes**

We compete against our domestic competitors primarily on the basis of flight schedule, route network, quality of service, safety, type and age of aircraft and, to a lesser extent, price. We compete against other major Chinese airlines in our various domestic route markets. Of these competitors, the largest two are Air China and China Eastern Airlines, which are owned or controlled by the Chinese government. We also face competition from other airlines which are not state-owned such as Spring Airlines and Jixiang Airlines.

The following table sets forth our market share in terms of passengers carried, cargo and mail carried on departing flights and total departing flights at the ten busiest airports in China in 2020 according to passenger volume data from CAAC statistics briefing.

<b>Airport</b>	<b>Passengers Carried (% of total)</b>	<b>Cargo and Mail Carried (% of total)</b>	<b>Departing Flight (% of total)</b>
Beijing	8.34	3.75	7.02
Shanghai Pudong	14.73	8.08	11.45
Guangzhou	47.17	27.92	46.99
Chengdu	11.84	9.46	10.50
Shenzhen	29.14	10.63	26.19
Kunming	12.81	14.92	10.77
Xi'an	15.09	9.55	13.98
Shanghai Hongqiao	13.52	17.27	13.62
Chongqing	22.14	15.92	23.01
Hangzhou	30.54	9.76	26.01

The following table sets forth our market share in terms of passengers carried, cargo and mail carried on departing flights and total departing flights at eight busiest airports in southern and central China (excluding Guangzhou and Shenzhen, which are included in the table above) in 2020 according to passenger volume data from CAAC statistics briefing.

<b>Airport</b>	<b>Passengers Carried (% of total)</b>	<b>Cargo and Mail Carried (% of total)</b>	<b>Departing Flight (% of total)</b>
Zhengzhou	32.21	8.07	30.24
Wuhan	40.29	21.29	37.25
Changsha	34.52	20.89	34.03
Haikou	24.40	32.01	23.52
Sanya	27.36	30.36	28.14
Nanning	22.58	18.06	21.80
Zhuhai	34.24	33.23	32.71
Guilin	15.77	13.53	17.34

### ***Regional Routes***

In 2020, we conducted a total of 2,708 flights on our regional routes. We face less competition on regional routes than that on domestic and international routes, and earn a higher operating margin. Air China, China Eastern Airlines, Air Macau, Cathay Pacific, China Airlines and Eva Airways compete with our Group in the regional traffic markets.

### ***International Routes***

We compete with a number of Chinese airlines, including Air China and China Eastern Airlines and many well-established foreign airlines on our international routes. Most of these international competitors have significantly longer operating histories, substantially greater financial and technological resources and greater brand recognition than us. Many of our international competitors have larger sales networks and participate in more comprehensive and convenient reservation systems, or engage in promotional activities that may enhance their ability to attract international passengers.

In Southeast Asian routes, our competitors mainly include Thai Airways International, Singapore Airlines, Malaysian Airlines System, Vietnam Airlines, Garuda Indonesia, Philippine Airlines, Air China and China Eastern Airlines. In European routes, our competitors mainly include Air China, China Eastern Airlines, Cathay Pacific, Lufthansa German Airlines and Finnair. In the United States routes, our competitors mainly include Air China, China Eastern Airlines, Cathay Pacific, Delta Airlines and United Airlines. In Australian routes, our competitors include Air China, China Eastern Airlines, Cathay Pacific and Qantas Airways. We compete in the international market primarily on the basis of safety, price, timeliness and convenience of scheduling.

## **Airline Subsidiaries**

Our Airline Subsidiaries are joint ventures established by our Company and local companies in the provinces or special economic zones where our Airline Subsidiaries are based and are engaged in providing airline and related services. As of December 31, 2020, our Company owned a 55% or 60% equity interest in each of our Airline Subsidiaries.

As of December 31, 2020, Xiamen Airlines operated under the “MF” code with a fleet of 209 aircraft. In 2020, Xiamen Airlines carried a total of about 26.91 million passengers, or approximately 27.8% of the passengers carried by our Group in that year, and had RMB20,675 million in traffic revenue.

As of December 31, 2020, Shantou Airlines operated under “CZ” code with a fleet of 15 aircraft. In 2020, under the centralized allocation of flight routes of our Group, Shantou Airlines carried a total of about 2.11 million passengers, or 2.2% of the passengers carried by our Group in that year. Total traffic revenue of Shantou Airlines for the year ended December 31, 2020 was RMB1,167 million.

As of December 31, 2020, Zhuhai Airlines operated under the “CZ” code with a fleet of 16 aircraft. In 2020, under the centralized allocation of flight routes of our Group, Zhuhai Airlines carried a total of about 1.74 million passengers, or approximately 1.8% of the total number of passengers carried by our Group in that year. Total traffic revenue of Zhuhai Airlines for the year ended December 31, 2020 was RMB1,041 million.

As of December 31, 2020, Guizhou Airlines operated under the “CZ” code with a fleet of 20 aircraft. In 2020, under the centralized allocation of flight routes of our Group, Guizhou Airlines carried a total of about 2.80 million passengers, or approximately 2.9% of the total number of passengers carried by our Group in that year. Total traffic revenue of Guizhou Airlines was approximately RMB1,572 million for the year ended December 31, 2020.

As of December 31, 2020, Chongqing Airlines operated under the “OQ” code with a fleet of 30 aircraft. In 2020, under the centralized allocation of flight routes of our Group, Chongqing Airlines carried a total of about 3.33 million passengers, or 3.4% of the total number of passengers carried by our Group in that year. Total traffic revenue of Chongqing Airlines for the year ended December 31, 2020 was RMB2,117 million.

As of December 31, 2020, Henan Airlines operated under the “CZ” code with a fleet of 30 aircraft. In 2020, under the centralized allocation of flight routes of our Group, Henan Airlines carried a total of about 4.34 million passengers, or approximately 4.5% of the total number of passengers carried by our Group in that year. Total traffic revenue of Henan Airlines was approximately RMB2,427 million for the year ended December 31, 2020.

## **Freight and Logistic Subsidiary**

Southern Airlines Freight and Logistic (Guangzhou) Co., Ltd., or Freight and Logistic Company, was established in June 2018 with registered capital of RMB1.8 billion. It mainly conducts logistics operations. In 2020, Freight and Logistic Company had an operating revenue of RMB15,397 million and a net profit of RMB4,013 million, representing an increase of 80.29% and 990.49% from 2019, respectively. As at December 31, 2020, Freight and Logistic Company’s total assets amounted to RMB9,211 million and net assets amounted to RMB6,391 million.

In December 2020, the Company, Freight and Logistic Company and certain third parties investors entered into a capital increase agreement. Pursuant to this agreement, the third party investors made capital contribution of approximately RMB3,355 million into the Freight and Logistic Company. After the capital contribution, the Company’s equity interests in the Freight and Logistic Company decreased from 100% to 55%.



## **Insurance**

The aviation insurance in the name of CHINA SOUTHERN AIRLINES COMPANY LIMITED as a member of CHINA CIVIL AVIATION GROUP INSURANCE FLEET, is placed with the PICC Property & Casualty Company Limited, China Pacific Property Insurance Co., Ltd., Ping An Property & Casualty Insurance Company of China, Ltd. and China Life Property and Casualty Insurance Company Limited as Insurers. We maintain aviation hull all risks, spares and airline liability insurance policy, aircraft hull all risks and spare engines deductible insurance policy, aviation hull war and allied perils policy, aviation war, hijacking and other perils excess liability insurance policy, all of which are in the amount customary in the Chinese aviation industry.

Under the relevant PRC laws, civil liability of Chinese airlines for death or injuries suffered by passengers on domestic flights is limited to RMB400,000 (approximately US\$61,304) per passenger. As of July 31, 2005, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 128,821 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not attributable to negligence or other wrongful act of the carrier (and its agents), or the damage arose solely from the negligence or other wrongful act of a third party. We believe that we maintain adequate insurance coverage for the civil liability that can be imposed in respect of death or injuries to passengers under Chinese law, the Montreal Convention and any agreement which we are subject to.

The insurance premiums payable in respect of the CAAC group insurance policy are allocated to each participating airline based on the value of the airline's insured aircraft and insured spares, airlines traffic RPK, passenger number and cargo revenue.

## **Intellectual Property**

Our businesses and operations, other than the businesses and operations of Xiamen Airlines and Chongqing Airlines, are conducted under the names "China Southern" and "China Southern Airlines" in both English and Chinese. We use a stylized rendition of a kapok plant as our logo. Xiamen Airlines conducts its businesses and operations under the name of "Xiamen Airlines" in English and Chinese and uses its own logo depicting a stylized rendition of an egret. Chongqing Airlines conducts its business and operations under the name of "Chongqing Airlines" in English and Chinese and uses its own logo depicting a cross of two rivers.

We own various trademarks and trade names related to our business. The names "China Southern" and "China Southern Airlines" contain Chinese words of common usage and are therefore not eligible for registration as trade names under current Chinese law. The kapok logo is a trademark registered in China and recorded with the International Air Transport Association ("IATA"), the rights to which are owned by CSAH. Our Company and CSAH have entered into a trademark license agreement (the "Trademark License Agreement"), pursuant to which CSAH has licensed to our Group the right to use the names "China Southern" and "China Southern Airlines" in both English and Chinese and granted our Company a ten-year renewable license from 1997 to use the kapok logo on a world-wide basis. CSAH has retained the right to use the kapok logo in connection with its non-airline related businesses conducted as of the date of the Trademark License Agreement and to permit its affiliates that do not compete, directly or indirectly, with our Group to use the kapok logo. Unless CSAH gives a written notice of termination three months before the expiration of the agreement, the agreement will be automatically renewed for another ten-year term. In May of 2017, the Trademark License Agreement was automatically renewed by the two parties for another ten-year term ending 2027. Xiamen Airlines owns all rights to its egret logo, which is a trademark registered in China, and recorded with the IATA. Chongqing Airlines also owns all rights to its logo, which is a trademark registered in China, and recorded with the IATA.

## **Iran Sanctions Disclosure**

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, or the Exchange Act, if during 2020, our Company or any of our affiliates have engaged in certain transactions with Iran or with persons or entities designated under certain executive orders, our Company would be required to disclose information regarding such transactions in our Annual Report as required under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA. In 2020, our Company operated air services to and from Iran through the specifically designated route of "Beijing—Urumqi—Tehran—Urumqi—Beijing" (the "Iran Route") and engaged in international traffic in passengers, cargo and mail. At the beginning of 2020, we carried out four round-trip flights per week of the "Iran Route". However, due to the COVID-19 pandemic, the flights of the "Iran Route" have been suspended since February 2020.

In order to provide our aviation services in Iran, our Company has entered into certain ground service agreement with Iran Air whereby Iran Air provides our Company with ground service, maintenance and other support services in return for certain service fees to be paid by our Company in accordance with the agreement. Our Company does not provide, nor has it ever provided, any equipment, component, or technology to Iran. The services rendered by our Company to Iran are limited to the provision of international traffic for passengers, cargo and mail and those services provided by our local offices and agents to customers. Our Company does not operate flights within Iran.

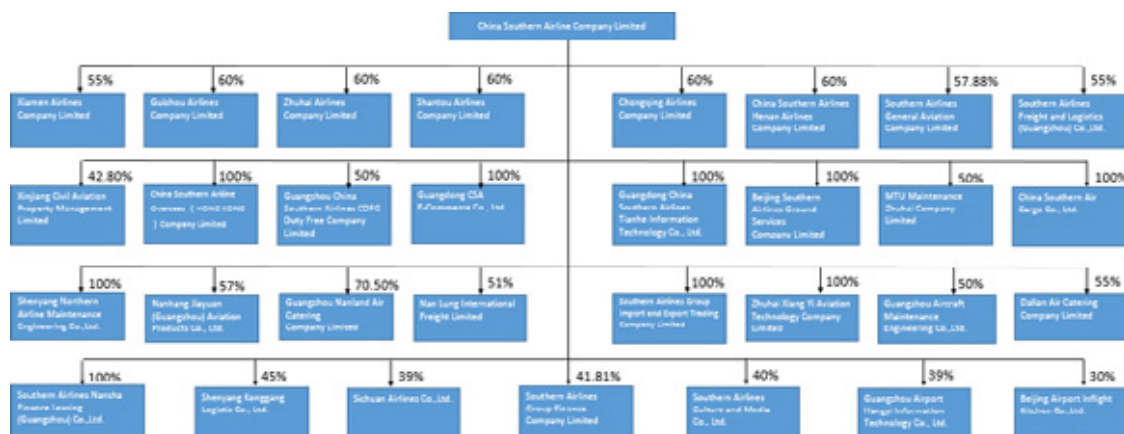
Our Company's international route rights, as well as the corresponding landing rights, are derived from air service agreements negotiated between the Chinese government, through the CAAC, and the governments of the relevant foreign countries. With respect to the Iran Route, our Company's international route rights associated thereto are derived from and based on the bilateral air transport agreement (the "Bilateral Agreement") entered into by and between the Chinese government and the Iranian government. Both parties are contracting parties to the Convention on International Civil Aviation, opened for signature at Chicago on December 7, 1944, and entered into the Bilateral Agreement with an aim to establish and operate scheduled air services between and beyond the two countries' respective territories. The Bilateral Agreement, which has been registered with the International Civil Aviation Organization, sets forth general principles and specific rules governing our Company's aviation services in Iran.

Our Company understands that Iran Air is Iran's national airline carrier and is designated by the U.S. Department of the Treasury pursuant to Executive Order No. 13382. However, Executive Order No. 13382 only "prohibits all transactions between the designees and any U.S. person." Our Company is incorporated in the People's Republic of China and is a foreign issuer in the United States. As our Company is not a U.S. person, our transactions with Iran Air are not prohibited by Executive Order No. 13382. Our Company further understands that it has an obligation to disclose our transactions with Iran Air as described above under Exchange Act Section 13(r)(1)(D)(iii). Iran Air is Iran's national airline carrier and is controlled or owned by the Government of Iran. Our Company believes that Iran Air can be identified as the Government of Iran under Section 560.304 of title 31, Code of Federal Registration (relating to the definition of the Government of Iran). Our Company has not obtained any specific authorization of a Federal department or agency of the United States concerning our transactions with Iran Air.

Our Company does not anticipate any significant change in our services to Iran, either by way of increasing significantly the size of or altering the nature of our operations in the territory. For the year ended December 31, 2020, the asset of Iran office and revenue generated from the air services to Iran amounted to US\$0.99 million and US\$0.08 million, representing only 0.0020% and 0.0006% of the total assets and total revenue generated by our Group as of and for the year ended December 31, 2020, respectively. Therefore, our Company believes that our operations in Iran for the year ended December 31, 2020 were inconsequential and quantitatively immaterial to our business, financial condition and results of operations.

### **C. ORGANIZATIONAL STRUCTURE**

The following chart illustrates the corporate structure of our Group as of December 31, 2020 and the aggregate effective equity interest of our Company in each of our principal subsidiaries, associates and jointly controlled entities.



The particulars of our principal subsidiaries as of December 31, 2020 are as follows:

Name of Company	Place and Date of Establishment/Operation	Proportion of Ownership Interest Held by our Company
Xiamen Airlines Company Limited	PRC August 11, 1984	55%
Shantou Airlines Company Limited	PRC July 20, 1993	60%
Zhuhai Airlines Company Limited	PRC May 8, 1995	60%
Guizhou Airlines Company Limited	PRC June 17, 1998	60%
Chongqing Airlines Company Limited	PRC May 30, 2007	60%
China Southern Airlines Henan Airlines Company Limited	PRC September 27, 2013	60%
Southern Airlines Freight and Logistic (Guangzhou) Co., Ltd.	PRC June 8, 2018	55%

The particulars of our principal associates and joint ventures as of December 31, 2020 are as follows:

Name of Company	Place and Date of Establishment/Operation	Proportion of Ownership Interest Held by		
		Group Effective Interest	Our Company	Subsidiaries
Guangzhou Aircraft Maintenance Engineering Co., Ltd.	PRC October 28, 1989	50%	50%	—
Southern Airlines Group Finance Company Limited	PRC June 28, 1995	48.59%	41.81%	6.78%
Sichuan Airlines Co., Ltd.	PRC August 28, 2002	39%	39%	—
Southern Airlines Culture and Media Co., Ltd.	PRC May 13, 2004	40%	40%	—
MTU Maintenance Zhuhai Co., Ltd.	PRC March 1, 2001	50%	50%	—

#### D. PROPERTY, PLANTS AND EQUIPMENT

For a discussion of our aircraft, see Item 4 “Information on our Company-History and development of our Company – Aircraft Acquisitions.”

Our headquarters in Guangzhou occupy an area of approximately 1,526,887 square meters of land and a total gross floor area of approximately 1,016,105 square meters. We lease land in Guangzhou on which our headquarters and other facilities are located from CSAH. We also lease from CSAH certain buildings mainly at Haikou, Wuhan, Nanyang, Shenyang, Dalian, Jilin, Harbin, Xinjiang and other PRC cities.

Our principal properties are located at our headquarters site and at our route bases. The following table sets forth certain information with respect to our properties at our headquarters in Guangzhou and certain route bases as of the date hereof.

	<u>Land (in square meters)</u>		<u>Building (in square meters)</u>	
	<u>Owned</u>	<u>Leased</u>	<u>Owned</u>	<u>Leased</u>
Guangzhou	1,437,958	88,929	933,974	82,131
Shenzhen	256,280	—	124,505	5,730
Zhuhai	151,942	81,413	20,124	3,601
Changsha	255,422	6,238	81,293	12,536
Haikou	346,820	—	58,443	4,763
Wuhan	284,339	32,579	36,429	18,669
Nanyang	—	1,140,015	11,936	16,439
Sanya	96,343	—	64,698	—
Shenyang	142,199	27,082	28,743	42,361
Dalian	—	158,240	64,226	27,194
Jilin	142,316	46,056	85,274	7,167
Harbin	30,969	248,799	68,893	32,372
Xinjiang	18,246	540,070	163,225	10,214
Guangxi	74,471	—	52,554	—
Beijing	7,045,440	—	885,629	—
Shanghai	42,292	5,333	95,506	—
Chengdu	—	—	1,964	3,944
Qingdao	—	—	763	—
Hefei	—	—	2,321	—
Sydney	—	—	1,151	—
Amsterdam	—	—	555	—
Xi'an	54,277	—	4,364	—
Yunnan	—	—	2,003	—
Hangzhou	—	—	871	—
Nanjing	—	—	1,704	—

The following table sets forth certain information with respect to the properties of the subsidiaries named below as of the date hereof.

	<u>Land (in square meters)</u>		<u>Building (in square meters)</u>	
	<u>Owned</u>	<u>Leased</u>	<u>Owned</u>	<u>Leased</u>
Xiamen Airlines	451,233	—	626,871	24,788
Shantou Airlines	137,075	—	88,865	—
Zhuhai Airlines	120,006	—	72,074	2,390
Guizhou Airlines	254,871	—	33,646	—
Chongqing Airlines	82,449	—	68,242	—
Henan Airlines	364,255	—	64,892	—
Zhuhai Xiang Yi Aviation Technology Co., Ltd.	132,088	—	52,323	3,570

We lease certain lands and buildings from CSAH, some of which are lacking adequate documentation evidencing CSAH's rights to such land and buildings. As a consequence, the relevant lease agreements between CSAH and our Company for such land or building may not be registered with the relevant authorities. Lack of registration may affect the validity of such lease agreements against a third party. There are certain other parcels of land and buildings owned or used by us that lack adequate documentation. Lack of adequate documentation for land use rights and ownership of buildings may impair our ability to dispose of or mortgage such land use rights and buildings. As of the date of this Annual report, the Group was in the process of applying for the land use right certificates and property title certificates in respect of the properties located in several cities in which the Group has interests and for which such certificates have not been granted. Our directors are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that we have not yet obtained the relevant land use right certificates and property title certificates.

On August 14, 2007, we entered into an assets transfer agreement with CSAH, pursuant to which we purchased from CSAH certain assets including 19 buildings with aggregate area of 21,962.25 square meters. These buildings were not with a property title certificate at the time of our purchase. CSAH undertook to obtain the relevant property title certificate for these buildings by December 30, 2019 and obtained the certificates for 12 of these buildings as of December 20, 2019. CSAH was unable to obtain the certificates for the rest of the buildings due to restrictions imposed by PRC laws and regulations. With respect to these buildings which do not have the property title certificates, CSAH undertakes to (i) apply for such certificates at its cost if the restrictions imposed by PRC laws and regulations no longer exist, and (ii) indemnify us if we suffer any losses resulted from third party claims arising from the lack of property title certificates of these buildings or from our ordinary business operation being affected by the defects of title of these buildings.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis should be read in conjunction with our consolidated financial statements, which have been prepared in accordance with IFRSs, included elsewhere in this Annual Report.

##### **Critical Accounting Policies**

The preparation of the consolidated financial statements requires our Group to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the end of each reporting period, and the reported revenue and expenses during each reporting period. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Our critical accounting policies are set forth in Note 3 to the consolidated financial statements. We believe that the following critical accounting policies involve the key accounting judgments and estimates used in the preparation of our financial statements.

##### ***Impairment of long-lived assets (other than goodwill)***

As discussed in Note 2(1)(iii) to the consolidated financial statements included elsewhere in this Annual Report, at the end of each reporting period, the Group tests for impairment for long-lived assets or cash-generating units (“CGUs”) (a portion of which related to aircraft and other flight equipment including rotables in property, plant and equipment, aircraft and engines in right-of-use assets (“aircraft and related equipment”)) to determine whether the recoverable amounts have declined below the carrying amounts. If circumstances indicate that the carrying amount of long-lived assets or CGUs may not be recoverable, the assets or CGUs may be considered “impaired”, and an impairment loss may be recognized.

The recoverable amount of assets or CGUs is the higher of the fair value less costs of disposal and value in use. As the fair value of certain assets or CGUs may not be publicly available, 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 operating costs and discount rates. In particular, in determining the value in use of the Group’s aircraft and related equipment, significant judgments are required on the accounting estimates which are based on the assumptions relating to traffic revenue growth rates, operating costs growth rates and discount rates applied, among which, operating costs consist of jet fuel costs, landing and navigation fees, maintenance expenses, payroll and welfare.

### ***Frequent flyer revenue***

According to the frequent flyer award programs, the allocation of stand-alone selling price of the mileage awarded involves the estimation of the expected redemption rate. The expected redemption rate is estimated based on historical experience of mileage redemption, taking into consideration future mileage redemption patterns, which are associated with changes in the terms to mileage programs and customer behavior. Different estimates could significantly affect the estimated contract liabilities and the results of operations.

### ***Income tax***

Deferred tax assets are recognized related to operating loss carry forwards that will reduce future taxable income. The Group needs to make judgments and estimates in assessing the realizability of the operating loss carry forwards. Different estimates could significantly affect the deferred income tax assets and income tax expense in the year in which such determination is made.

### ***Depreciation and amortization***

As disclosed in Note 2(i) and Note 2(k) to the consolidated financial statements, components related to engine overhaul costs under property, plant and equipment and right-of-use assets were depreciated on the units of production method based on flying hours. The expected flying hours of engines are based on the Group's historical overhaul experience with similar engine models. Except for components related to engine overhaul costs, other property, plant and equipment and right-of-use assets are depreciated or amortized on a straight-line basis over the estimated useful lives or lease term, which is shorter, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The Group reviews the estimated useful lives of assets annually in order to determine the amount of depreciation and amortization expense to be recorded during any financial year. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

### ***Provision for major overhauls***

As disclosed in Note 2(k) and Note 2(ab) to the consolidated financial statements, provision for the cost of major overhauls to fulfil the lease return conditions involves estimation of the expected overhaul cycles and overhaul costs, which are based on the historical experience of actual costs incurred for overhauls of airframes and engines of the same or similar types and current economic and airline-related developments. Different estimates could significantly affect the estimated provision and the results of operations.

### ***Ticket breakage revenue***

The Group recognizes, in proportion to the pattern of rights exercised by the customer, the breakage amount to which the Group expects to be entitled as ticket breakage revenue. Such portion is estimated based on the Group's historical experiences, and the estimated revenue is recognized only to the extent that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Different estimates could significantly affect the ticket breakage revenue recognized in the current financial year.

### ***Recently Pronounced International Financial Reporting Standards***

Information relating to the recently pronounced IFRSs is presented in Note 58 to the consolidated financial statements.

## **Key Factors Affecting Results of Operations**

Our results of operations are affected by the factors discussed below.

### ***COVID-19 Pandemic***

The COVID-19 pandemic, along with the measures governments and private organizations worldwide have implemented in an attempt to contain the spread of this pandemic, resulted in a severe decline in demand for air travel in 2020, which in turn adversely affected our business, results of operations and financial condition. We responded proactively to the pandemic to mitigate its effects on our business by taking various measures, including reducing capacity, slowing down the introduction of new aircraft and implementing expense management to better align our cost with our reduced schedule. Despite these steps, the cost-saving measures we implemented in 2020 have not made up for the loss in revenues as a result of decreased ticket sales due to the pandemic. The Company recorded a loss in the operating results of RMB11,827 million for the year 2020. The continuing impact of the pandemic, and changes in passenger flight use that may result, are likely to have a significant effect on our business and operating results in the future. See Item 3. Key Information – D. Risk Factors – “The outbreak and global spread of COVID-19 and the persistence of the resulting pandemic have had a material adverse effect on our business. The duration and severity of the pandemic, and similar public health threats or a large scale natural disaster we may face in the future, could result in additional adverse effects on our business” and Item 4. Information of the Company – B. Business Overview – “Impact of the COVID-19 Pandemic” for additional discussion regarding the impact of the COVID-19 pandemic on our operation results and financial condition.

### ***Financial and operating leverage***

Like most airlines, we are subject to a high degree of financial and operating leverage. A significant percentage of our operating expenses are fixed costs that do not vary proportionally to our yields or the load factors. These fixed costs include depreciation expense, jet fuel costs, landing and navigation fees, financing costs, operating lease payments, aircraft maintenance costs and labor costs for flight crew, cabin crew and ground personnel. Thus, a minor change in our yields or load factors could have a material effect on our results of operations. In addition, certain of these expenses, primarily financing costs and labor costs and depreciations do not vary proportionally to the number of flights flown. Thus, even a minor change in aircraft utilization rates may affect our results of operations. We are and will continue to be highly leveraged with substantial liabilities denominated in foreign currencies and, accordingly, the results of our operations are significantly affected by fluctuations in foreign exchange rates, particularly for the U.S. dollar. Our net exchange gain of RMB3,485 million was recorded in 2020, primarily attributable to the exchange difference arising from the lease liabilities denominated in USD along with the appreciation of Renminbi against the U.S. dollar.

### ***Political and economic conditions and regulations***

A number of external factors, including political and economic conditions in China, tend to have a major impact on our performance. Our financial performance is also significantly affected by factors arising from operating in a regulated industry. As substantially all aspects of our airline operations are regulated by the PRC government, our operating revenue and expenses are directly affected by the PRC government’s policies with respect to domestic air fares, jet fuel prices and landing and navigation fees, among others. The nature and extent of airline competition and the ability of Chinese airlines to expand are also affected by CAAC’s control over route allocations. Any changes in the PRC government’s regulatory policies or any implementation of such policies could have a significant impact on our future operations and our ability to implement our operating strategy.

### ***Foreign exchange risk***

We finance our aircraft acquisitions mainly through leases or bank loans in U.S. dollars, and have a substantial amount of transactions and liabilities denominated in U.S. dollars in relation to our global purchases of jet fuel, lease and purchase of aviation equipment as well as major repairs, in addition to the landing fees of our international flights in the airports of other countries, and, as a result, our business will be affected by the Renminbi depreciation. Renminbi depreciation has caused exchange loss to our Group and increased our operating costs which are denominated in foreign currencies.

### Seasonality

Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. In particular, our airline revenue is generally higher in the second half of the year than in the first half of the year due to the greater demand for air travel during the summer months, although such traditional seasonal trends were disrupted in 2020 due to the significantly reduced travel demand resulting from the COVID-19 pandemic. See “Item 3. Key Information – Risk Factors – Our results of operations tend to be volatile and fluctuate due to seasonality” for additional discussion.

In addition, our future operations will be affected by, among other things, changes in the aviation market, the cost of jet fuel, aircraft acquisition and leasing costs, aircraft maintenance expenses, take-off and landing charges, wages, salaries and benefits and other operating expenses, foreign exchange rates and the rates of income taxes paid.

### Certain Financial Information and Operating Data by Geographic Region

The following table sets forth certain financial information and operating data by geographic region for the years ended December 31, 2020, 2019 and 2018.

	Year ended December 31,			2020 vs.	2019 vs.
	2020	2019	2018	2019% increase (decrease)	2018% increase (decrease)
<b>Traffic</b>					
RPK (million)					
Domestic	140,135.20	195,239.18	178,972.96	(28.22)	9.09
Regional	239.14	3,258.71	3,304.83	(92.66)	(1.40)
International	13,065.60	86,422.92	76,916.01	(84.88)	12.36
Total	153,440.11	284,920.82	259,193.80	(46.15)	9.93
RTK (million)					
Domestic	13,720.92	18,897.97	17,437.56	(27.39)	8.38
Regional	30.19	312.80	315.39	(90.35)	(0.82)
International	7,053.76	13,414.05	12,580.72	(47.42)	6.62
Total	20,804.88	32,624.82	30,333.67	(36.23)	7.55
Passengers carried (thousand)					
Domestic	93,911.34	128,706.50	119,494.01	(27.03)	7.71
Regional	213.22	2,480.54	2,527.08	(91.40)	(1.84)
International	2,731.48	20,445.12	17,863.96	(86.64)	14.45
Total	96,856.04	151,632.16	139,885.04	(36.12)	8.40
Cargo and mail carried (thousand tons)					
Domestic	817.51	1,052.13	1,043.91	(22.30)	0.79
Regional	9.12	23.27	21.85	(60.80)	6.50
International	634.19	688.16	666.52	(7.84)	3.25
Total	1,460.83	1,763.57	1,732.28	(17.17)	1.81
<b>Capacity</b>					
ASK (million)					
Domestic	193,935.93	235,216.49	216,160.94	(17.55)	8.82
Regional	550.91	4,367.53	4,383.59	(87.39)	(0.37)
International	20,235.13	104,477.84	93,876.41	(80.63)	11.29
Total	214,721.97	344,061.86	314,420.95	(37.59)	9.43
ATK (million)					
Domestic	22,182.70	26,803.84	24,549.52	(17.24)	9.18
Regional	70.71	506.71	503.53	(86.04)	0.63
International	11,638.87	19,123.06	17,674.93	(39.14)	8.19
Total	33,892.28	46,433.61	42,727.99	(27.01)	8.67



				2020 vs. 2019 increase (decrease) Percentage points	2019 vs. 2018 increase (decrease) Percentage points
<b>Load Factors</b>					
Passenger load factor (RPK/ASK) (%)					
Domestic	72.26	83.00	82.80	(10.74)	0.20
Regional	43.41	74.61	75.39	(31.20)	(0.78)
International	64.57	82.72	81.93	(18.15)	0.79
Average	71.46	82.81	82.44	(11.35)	0.37
Overall load factor (RTK/ATK) (%)					
Domestic	61.85	70.50	71.03	(8.65)	(0.53)
Regional	42.70	61.73	62.63	(19.03)	(0.90)
International	60.61	70.15	71.18	(9.54)	(1.03)
Average	61.39	70.26	70.99	(8.88)	(0.73)
<b>Yield</b>					
Yield per RPK (RMB)					
Domestic	0.41	0.52	0.54	(decrease) (21.15)	(decrease) (3.70)
Regional	1.05	0.75	0.74	40.00	1.35
International	0.96	0.39	0.39	146.15	/
Average	0.46	0.49	0.49	(6.12)	/
Yield per RTK (RMB)					
Domestic	4.34	5.50	5.60	(21.09)	(1.79)
Regional	11.06	8.18	8.13	35.21	0.62
International	3.84	3.10	3.00	23.87	3.33
Average	4.18	4.54	4.55	(7.93)	(0.22)
<b>Financial</b>					
Passenger revenue (RMB million)					
Domestic	57,793	101,955	95,773	(43.32)	6.45
Regional	251	2,437	2,446	(89.70)	(0.37)
International	12,490	34,110	29,819	(63.38)	14.39
Total	70,534	138,502	128,038	(49.07)	8.17
Cargo and mail revenue (RMB million)					
	16,493	9,615	10,026	71.53	(4.10)

## A. OPERATING RESULTS

The following discussion is based on our historical results of operations. As a result of the factors discussed above, such results of operations may not be indicative of our future operating performance.

## 2020 compared with 2019

Net loss attributable to equity shareholders of the Company of RMB10,847 million was recorded in 2020 as compared to net profit attributable to equity shareholders of the Company of RMB2,640 million in 2019. The Group's total operating revenue decreased by RMB61,761 million or 40.02% from RMB154,322 million in 2019 to RMB92,561 million in 2020. Passenger load factor decreased by 11.35 percentage points from 82.81% in 2019 to 71.46% in 2020. Yield per RPK decreased by 6.12% from RMB0.49 in 2019 to RMB0.46 in 2020. Yield per RTK decreased by 7.93% from RMB4.54 in 2019 to RMB4.18 in 2020. Operating expenses decreased by RMB39,497 million or 26.58% from RMB148,608 million in 2019 to RMB109,111 million in 2020. Mainly affected by the impact of the COVID-19 pandemic on the aviation industry, operating loss of RMB11,864 million was recorded in 2020 as compared to operating profit of RMB10,838 million in 2019.

### Operating Revenue

The following table sets forth operating revenue for the years indicated:

	2020		2019		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	87,027	94.02	148,117	95.98	(41.24)
Including: Passenger revenue	70,534		138,502		(49.07)
– Domestic	57,793		101,955		(43.32)
– Hong Kong, Macau and Taiwan	251		2,437		(89.70)
– International	12,490		34,110		(63.38)
Cargo and mail revenue	16,493		9,615		71.53
Other operating revenue	5,534	5.98	6,205	4.02	(10.81)
Mainly including:					
– Commission income	2,771		2,952		(6.13)
– Cargo handling income	507		359		41.23
– Ground services income	210		409		(48.66)
– General aviation income	508		564		(9.93)
– Hotel and tour operation income	390		712		(45.22)
Total operating revenue	92,561	100.00	154,322	100.00	(40.02)

	2020		2019		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger revenue	70,534	81.05	138,502	93.51	(49.07)
Cargo and mail revenue	16,493	18.95	9,615	6.49	71.53
Traffic revenue	87,027	100.00	148,117	100.00	(41.24)

	2020		2019		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	57,793	81.94	101,955	73.61	(43.32)
Hong Kong, Macau and Taiwan	251	0.36	2,437	1.76	(89.70)
International	12,490	17.70	34,110	24.63	(63.38)
Total	70,534	100.00	138,502	100.00	(49.07)

Substantially all of the Group's operating revenue is attributable to airlines transport operations. Traffic revenue accounted for 95.98% and 94.02% of the total operating revenue in 2019 and 2020, respectively. Passenger revenue and cargo and mail revenue accounted for 81.05% and 18.95%, respectively, of the total traffic revenue in 2020. During the reporting period, the Group's total traffic revenue was RMB87,027 million, representing a decrease of RMB61,090 million or 41.24% from prior year, because of the decrease in passenger revenue which is partially offset by the increase in cargo revenue.

The decrease in operating revenue was primarily due to a decrease in passenger revenue by 49.07% from RMB138,502 million in 2019 to RMB70,534 million in 2020. The total number of passengers carried decreased by 36.12% to 96.86 million passengers in 2020. RPKs decreased by 46.15% from 284,921 million in 2019 to 153,440 million in 2020, primarily due to the decrease in number of passengers carried resulting from insufficient passenger confidence for travel due to the impact of COVID-19 pandemic.

Domestic passenger revenue, which accounted for 81.94% of the total passenger revenue in 2020, decreased by 43.32% from RMB101,955 million in 2019 to RMB57,793 million in 2020. Domestic passenger traffic in RPKs decreased by 28.22%, while passenger capacity in ASKs decreased by 17.55%, resulting in a decrease in passenger load factor by 10.74 percentage points from 83.00% in 2019 to 72.26% in 2020. Yield per RPK decreased by 21.15% from RMB0.52 in 2019 to RMB0.41 in 2020.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 0.36% of total passenger revenue, decreased by 89.70% from RMB2,437 million in 2019 to RMB251 million in 2020. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs decreased by 92.66%, while passenger capacity in ASKs decreased by 87.39%, resulting in a decrease in passenger load factor by 31.20 percentage points from 74.61% in 2019 to 43.41% in 2020. Passenger yield per RPK increased by 40.00% from RMB0.75 in 2019 to RMB1.05 in 2020.

International passenger revenue, which accounted for 17.70% of total passenger revenue, decreased by 63.38% from RMB34,110 million in 2019 to RMB12,490 million in 2020. For international flights, passenger traffic in RPKs decreased by 84.88%, while passenger capacity in ASKs decreased by 80.63%, resulting in a decrease in passenger load factor by 18.15 percentage points from 82.72% in 2019 to 64.57% in 2020. Passenger yield per RPK increased by 146.15% from RMB0.39 in 2019 to RMB0.96 in 2020.

Cargo and mail revenue, which accounted for 18.95% of the Group's total traffic revenue and 17.82% of total operating revenue, increased by 71.53% from RMB9,615 million in 2019 to RMB16,493 million in 2020. The increase was mainly attributable to the significant increase of demand for freight, especially international freight, due to the impact of COVID-19 pandemic.

Other operating revenue decreased by 10.81% from RMB6,205 million in 2019 to RMB5,534 million in 2020. The decrease was primarily due to the decrease of commission income, ground services income, general aviation income, and hotel and tour operation income.

### ***Operating Expenses***

Total operating expenses in 2020 amounted to RMB109,111 million, representing a decrease of RMB39,497 million or 26.58% compared to that of 2019, as a result of the decrease of various traffic expenses due to the impact of COVID-19 pandemic. Total operating expenses as a percentage of total operating revenue increased from 96.30% in 2019 to 117.88% in 2020.

The table below sets forth our operating expenses for the years indicated:

	2020		2019		Change in Operating expenses %
	Operating expenses RMB million	Percentage %	Operating expenses RMB	Percentage %	
Flight operation expenses	37,545	34.41	70,566	47.48	(46.79)
Mainly including:					
Jet fuel costs	18,797		42,814		(56.10)
Aircraft operating lease charges	977		1,412		(30.81)
Flight personnel payroll and welfare	10,232		12,709		(19.49)
Maintenance expenses	13,375	12.26	13,057	8.79	2.44
Aircraft and transportation service expenses	18,743	17.18	26,591	17.89	(29.51)
Promotion and selling expenses	5,007	4.59	7,755	5.22	(35.44)
General and administrative expenses	4,088	3.75	4,073	2.74	0.37
Depreciation and amortization	24,590	22.53	24,620	16.57	(0.12)
Impairment losses on property, plant and equipment and right-of-use assets	3,961	3.63	18	0.01	21,906
Hotel and tour operation expenses	317	0.29	587	0.39	(46.00)
External air catering service expenses	333	0.31	336	0.23	(0.89)
Financial institution charges	84	0.08	217	0.15	(61.29)
Cargo handling expenses	400	0.36	311	0.21	28.62
Others	668	0.61	477	0.32	(40.04)
Total operating expenses	109,111	100.00	148,608	100.00	(26.58)

Flight operation expenses, which accounted for 34.41% of total operating expenses, decreased by 46.79% from RMB70,566 million in 2019 to RMB37,545 million in 2020, mainly resulting from the decrease of traffic volume due to the impact of COVID-19 pandemic and the decrease of employee emolument.

Maintenance expenses, which accounted for 12.26% of total operating expenses, stayed at the same level in amounts as compared to 2019.

Aircraft and transportation service expenses, which accounted for 17.18% of total operating expenses, decreased by 29.51% from RMB26,591 million in 2019 to RMB18,743 million in 2020. The decrease was primarily due to a decrease in the amounts of take-off and landing fees and navigation fees, from RMB17,658 million in 2019 to RMB10,857 million in 2020, resulting from the decrease of the number of flights due to the impact of COVID-19 pandemic.

Promotion and selling expenses, which accounted for 4.59% of total operating expenses, decreased by 35.44% from RMB7,755 million in 2019 to RMB5,007 million in 2020, mainly due to the decrease in sales commission and computer reservation services charges due to the impact of COVID-19 pandemic.

General and administrative expenses, which accounted for 3.75% of the total operating expenses, stayed at the same level in amounts as compared to 2019.

Depreciation and amortization expenses, which accounted for 22.53% of the total operating expenses, remained at the same level in amounts as compared to 2019. It was mainly due to the net effect of the increase in depreciation and amortization expenses along with the expansion of fleet, and the decrease in depreciation and amortization expenses as a result of the change in depreciation method of components related to engine overhaul costs under property, plant and equipment and right-of-use assets since April 1, 2020.

Impairment losses on property, plant and equipment and right-of-use assets, which accounted for 3.63% of the total operating expenses, increased from RMB18 million in 2019 to RMB3,961 million in 2020, mainly due to the increase of impairment provision for aircraft and related equipment.

#### ***Operating (Loss)/Profit***

Operating loss of RMB11,864 million was recorded in 2020 (2019: Operating profit of RMB10,838 million). The decrease in operating profit was mainly resulting from the decrease in traffic revenue due to the impact of the COVID-19 pandemic on the aviation industry.

#### ***Other Net Income***

Other net income decreased by RMB438 million from RMB5,124 million in 2019 to RMB4,686 million in 2020, mainly resulted from the decrease in penalty income from group tickets along with the decreased number of international flights, and the decrease in non-refundable airport construction fees and overseas airport taxes, both due to the impact of the COVID-19 pandemic.

### ***Interest Expense and Net Exchange Gain/(Loss)***

Interest expense increased by RMB871 million from RMB5,845 million in 2019 to RMB6,716 million in 2020, mainly due to the decrease in capitalized interest.

Net exchange gain of RMB3,485 million was recorded in 2020, as compared with a net exchange loss of RMB1,477 million in 2019. Net exchange gain was primarily attributable to exchange difference arising from the lease liabilities denominated in USD, along with the appreciation of Renminbi against the U.S. dollar.

### ***Income Tax***

Income tax gains of RMB3,368 million was recorded in 2020 (2019: income tax expenses of RMB971 million was recorded). The effective tax rate in 2020 was 22.17% (2019: 23.95%).

### **2019 compared with 2018**

For a discussion of the comparison of our results of operation between 2018 and 2019, please see the section headed “Item 5. Operating and Financial Review and Prospects: A. Operating Results” in the Annual Report for the fiscal year ended December 31, 2019 on the Form 20-F filed with the Securities and Exchange Commission on April 28, 2020.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

Generally, we meet our working capital and capital expenditure requirements through cash from our operations, the proceeds from issuance of bonds, the proceeds of certain long-term and short-term bank loans and lease financing.

As of December 31, 2020, we had banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB315,452 million to our Group. As of December 31, 2020, approximately RMB228,188 million was unutilized. As of December 31, 2020 and 2019, our cash and cash equivalents were RMB25,419 million and RMB1,849 million, respectively.

Net cash generated from operating activities in 2020, 2019 and 2018 amounted to RMB2,698 million, RMB31,175 million and RMB15,388 million, respectively. Our Group’s operating cash inflows are primarily derived from the provision of air transportation and related services to customers. Operating cash outflows primarily are related to the recurring operating expenses, including flight operation, maintenance, aircraft and transportation services, and others. Net cash generated from operating activities decreased from RMB31,175 million in 2019 to RMB2,698 million in 2020, primarily due to the decrease of cash inflow from air transportation and related services to customers affected by the COVID-19 in the reporting period.

Net cash used in investing activities in 2020, 2019 and 2018 were RMB8,049 million, RMB14,427 million, and RMB20,517 million, respectively. Cash capital expenditures in 2020, 2019 and 2018 were RMB11,061 million, RMB15,622 million, and RMB24,033 million, respectively, primarily representing less investments in aircraft and flight equipment under our fleet introduction plans and less investments in other facilities and buildings used in operations.

Net cash generated from financing activities were RMB28,945 million in 2020, as compared to net cash used in financing activities of RMB21,833 million in 2019. Net cash inflow from borrowings and repayments of borrowings amounted to RMB30,085 million in 2020, while net cash outflow from borrowings and repayments of borrowings amounted to RMB3,354 million in 2019. The borrowings were used for capital expenditures and general working capital. Capital element of lease rentals paid was RMB20,670 million in 2020, while repayment of capital leases in 2019 were RMB17,784 million, resulting from the increase of aircraft acquisitions.

Net cash generated from financing activities amounted to RMB5,220 million in 2018. Net cash inflow from borrowings and repayments of borrowings amounted to RMB5,780 million in 2018. The borrowings were used for capital expenditures and general working capital. Repayment of capital leases amounted to RMB10,433 million in 2018, resulting from the increase of aircraft acquisitions under capital leases.

On September 27, 2018, we issued 1,578,073,089 A shares in total to CSAH at issue price of RMB6.02 per A Share pursuant to the subscription agreement dated June 26, 2017 entered into between CSAH and us (as amended by the supplemental agreement dated September 19, 2017). The gross proceeds and net proceeds raised from such issuance are approximately RMB9,500 million and RMB9,488 million respectively, which were used for introducing aircraft and installation of lightweight seats for aircraft. As of December 31, 2020, the proceeds from this issuance have been utilized.

On February 21, 2019, we issued the first tranche of 2019 corporate bonds with an aggregate nominal value of RMB3,000 million at an interest rate of 3.45% per annum. On May 16, 2019, we issued the second tranche of 2019 corporate bonds with an aggregate nominal value of RMB2,000 million at an interest rate of 3.72% per annum. On November 20, 2019, Xiamen Airlines issued the first tranche of 2019 corporate bonds with an aggregate nominal value of RMB1,500 million at an interest rate of 3.58% per annum. On March 16, 2020, Xiamen Airlines issued the first tranche of 2020 corporate bonds with an aggregate nominal value of RMB1,000 million at an interest rate of 2.95% per annum. The 2019 and 2020 corporate bonds mature in three years. The proceeds from the issuance of the corporate bonds will be used to replenish working capital and repay corporate debts.

In November 2020, we received CSRC approval on our proposed public issuance of short-term corporate bonds to professional investors having a gross minimal value not exceeding RMB10,000 million. The short-term corporate bonds will be issued in multiple tranches. The issuance of the first tranche must be completed within 12 months from the date of the approval and the issuance of the remaining tranches must be completed within 24 months from the date of the approval. The proceeds from the issuance of the short-term corporate bonds will be used to replenish working capital and repay corporate debts.

In October 2020, we issued a total of 160,000,000 bonds convertible to A Shares, with a nominal value of RMB100 each and an aggregate value amounting to RMB16,000 million. The convertible bonds were issued at nominal value and the initial conversion price was RMB6.24 per share. The bonds have a term of six years from the date of the issuance, which commences from October 15, 2020 and ends on October 14, 2026. The bonds will bear an interest at the rate of 0.2% in the first year, 0.4% in the second year, 0.6% in the third year, 0.8% in the fourth year, 1.5% in the fifth year and 2.0% in the sixth year. If the conversion rights have not been exercised in five transaction days after maturity, the bond will be redeemed at 106.5% of par value (including the interest for the sixth year). The proceeds from the issuance of the convertible bonds will be used for purchase of aircraft and aviation equipment and maintenance projects, introduction of our spare engine project and supplement of working capital.

On 15 April 2020, the Company issued 608,695,652 H Shares in total to Nan Lung at the issue price of HK\$5.75 per H Share pursuant to the subscription agreement dated 30 October 2019 entered into between the Company and Nan Lung. The net price of each new H Share issued was HK\$5.74 per H Share. The proceeds from this issuance will be utilized to supplement the general working capital of the Company.

On 18 June 2020, the Company issued 2,453,434,457 A Shares in total to CSAH at the issue price of RMB5.21 per A Share pursuant to the subscription agreement dated 30 October 2019 entered into between the Company and CSAH. The net price of each new A Share issued was RMB5.21 per A Share. The proceeds from this issuance will be utilized in the procurement of aircraft and the repayment of the Company's borrowings.

As of December 31, 2020, our aggregate long-term borrowings and lease liabilities (including borrowings and lease liabilities due within one year) were RMB163,161 million, among which RMB24,744 million, RMB27,707 million, RMB31,571 million, RMB15,655 million and RMB63,484 million, respectively, is due in 2021, 2022, 2023, 2024 and thereafter. Lease liabilities were mainly denominated in U.S. dollars, Euro and Japanese Yen. In the normal course of business, we are exposed to fluctuations in foreign currency exchange. Our exposure to foreign currency exchange primarily resulted from our foreign currency liabilities. Depreciation or appreciation of the Renminbi against foreign currencies affects our results significantly because our foreign currency liabilities generally exceed our foreign currency assets. We are not able to hedge our foreign currency exposure effectively other than by retaining our foreign currency denominated earnings and receipts to the extent permitted by the SAFE, or subject to certain restrictive conditions, entering into forward foreign exchange contracts with authorized banks.

As of December 31, 2020, our short-term bank loans amounted to RMB25,286 million, and our weighted average interest rate on short-term bank loans was 2.23% per annum. As of December 31, 2020, our outstanding ultra-short-term financing bills were RMB10,999 million. The primary use of the proceeds of our short-term bank loans and ultra-short-term financing bills is to finance working capital and capital expenditure needs. We have generally been able to arrange short-term borrowings with domestic banks in China as necessary and believe we can continue to obtain them based on our well-established relationships with various lenders.

As of December 31, 2020, the amounts of our lease liabilities were RMB121,213 million, predominately for aircraft, among which RMB20,930 million, RMB20,045 million, RMB18,765 million, RMB15,102 million and RMB46,371 million, respectively, is due in 2021, 2022, 2023, 2024 and thereafter.

As of December 31, 2020, we had a working capital deficit of RMB56,696 million, as compared to a working capital deficit of RMB78,752 million as of December 31, 2019. Historically, we operated in a negative working capital position, relying on cash inflow from operating activities, proceeds from ultra short-term financing bills and short-term bank loans to meet our short-term liquidity and working capital needs. In 2020 and thereafter, our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations to meet our debt obligations as they fall due, and our ability to obtain adequate external financing to meet our committed future capital expenditure. As of December 31, 2020, we had banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB315,452 million, of which approximately RMB228,188 million was unutilized, whereas in 2019, we received loan financing up to approximately RMB308,343 million, of which RMB251,165 million was unutilized.

As we are subject to a high degree of operating leverage, a minor decrease in our yield and/or load factor could result in a significant decrease in our operating revenue and hence our operating cash flows. This could occur when competition among Chinese airlines increases or where PRC aviation demand decreases. Similarly, a minor increase in the jet fuel prices, particularly in the domestic market, could result in a significant increase in our operating expenses and hence a significant decrease in our operating cash flows. This could be caused by fluctuations in supply and demand in international oil market. We currently comply with the financial covenants attached to certain of our borrowings. Nevertheless, as we are subject to a high degree of financial leverage, an adverse change in our operating cash flows could adversely affect our financial health and hence weaken our ability to obtain additional loans and lease facilities and to renew our short-term bank loans facilities as they fall due.

As of December 31, 2020, we had capital commitments as follows:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025 and onwards</u>	<u>Total</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>
Acquisition of aircraft and related equipment	28,382	15,033	11,910	1,222	—	56,547
Others	4,130	2,254	1,429	1,359	1,277	10,449
<b>Total capital commitments</b>	<b>32,512</b>	<b>17,287</b>	<b>13,339</b>	<b>2,581</b>	<b>1,277</b>	<b>66,996</b>

Others mainly represent airport and office facilities and equipment, overhaul and maintenance bases and training facilities.

As of December 31, 2020, our cash and cash equivalents amounted to RMB25,419 million, and 1.86% of which were denominated in U.S. Dollars, Hong Kong Dollars, Euro, Japanese Yen and other foreign currencies.

In view of the unutilized bank facilities of RMB228,188 million, we expect that we will have sufficient funding sources to meet our cash requirements in the foreseeable future.

### C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

None.

### D. TREND INFORMATION

Other than as disclosed in the foregoing disclosures and elsewhere in this Annual Report, we are not aware of any other trends, uncertainties, demands, commitments or events for the year ended December 31, 2020, that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that would cause our disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### E. OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition that is material to investors. In particular, we (i) have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity; (ii) have not entered into any derivative contracts that are both indexed to our own stock and classified in stockholders' equity, or not reflected in our statement of financial position; and (iii) do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity; that have or are reasonably likely to have a current or future effect on our financial condition that is material to investors.

For a detailed description of the guarantees that we provided for pilot trainees' personal bank loans related to their respective flight training expenses, please refer to Note 52(c) to the consolidated financial statements.

### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our obligations and commitments to make future payments under contracts and under commitments (excluding share of commitments of a joint venture) as of December 31, 2020.

	As of December 31, 2020				
	Payment due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
	<u>RMB million</u>	<u>RMB million</u>	<u>RMB million</u>	<u>RMB million</u>	<u>RMB million</u>
Short-term bank loans and ultra-short-term bills (Note 1)	36,631	36,631	—	—	—
Long-term bank and other loans (Note 1)	49,707	4,747	8,350	15,420	21,190
Lease liabilities	140,776	25,752	23,989	54,653	36,382
Aircraft purchase commitments (Note 2)	56,547	28,382	26,943	1,222	—
Other capital commitments	10,449	4,130	5,042	1,277	—
<b>Total</b>	<b>294,110</b>	<b>99,642</b>	<b>64,324</b>	<b>72,572</b>	<b>57,572</b>

Note 1 Interest on variable rate loans was estimated based on the current rate in effect at December 31, 2020.

Note 2 Amounts shown are net of previously paid purchase deposits.



## G. SAFE HARBOR

See the section headed “Forward-looking Statements” at the beginning of this Annual Report.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning our directors, senior management and supervisors. There were certain changes in our directors, senior management and supervisors as of April 23, 2021, details of which are set forth below.

Name	Position	Gender	Age
*Wang Changshun	Chairman of the Board, Executive Director	Male	63
Ma Xulun	Chairman of the Board, Executive Director, President	Male	56
Han Wensheng	Executive Director	Male	54
Zheng Fan	Independent Non-executive Director	Male	65
Gu Huizhong	Independent Non-executive Director	Male	64
Tan Jinsong	Independent Non-executive Director	Male	56
Jiao Shuge	Independent Non-executive Director	Male	55
Li Jiashi	Chairman of the Supervisory Committee, Supervisor	Male	59
Lin Xiaochun	Supervisor	Male	49
Mao Juan	Supervisor	Female	48
*Xiao Lixin	Executive Vice President, Chief Accountant and Chief Financial Officer	Male	54
Yao Yong	Executive Vice President, Chief Accountant and Chief Financial Officer	Male	51
Zhang Zhengrong	Executive Vice President	Male	58
Luo Laijun	Executive Vice President	Male	49
Wu Yingxiang	Executive Vice President	Female	47
Ren Jidong	Executive Vice President	Male	56
Cheng Yong	Executive Vice President	Male	59
Wang Zhixue	Executive Vice President	Male	60
Li Tongbin	Executive Vice President and Chief Engineer	Male	59
Su Liang	Chief Economist	Male	59
Chen Weihua	Chief Legal Adviser	Male	54
Li Shaobin	Chief Training Officer	Male	57
Xie Bing	Company Secretary, Secretary to the Board	Male	47
Feng Huanan	COO Flight Safety	Male	58
*Guo Jianye	Chief Customer Officer	Male	58
Luo Minghao	Chief Pilot	Male	58
Zhu Hailong	Chief Operation Officer	Male	57

Notes: \* represents the personnel has already resigned as at the end of the reporting period.

## Directors

**Ma Xulun**, male, born in July 1964 (aged 56), graduated from the School of Mechanical Science & Engineering of Huazhong University of Science & Technology, majoring in industrial engineering. He has a master's degree of engineering and is a certified public accountant. He started his career in August 1984, and joined the Chinese Communist Party in October 1990. He has been the Vice President of China National Materials Storage and Transportation Corporation, the Deputy Director General of the Finance Department of the CAAC, the Vice President and Standing Member of Party Committee of Air China Corporation Limited. He was appointed as the Vice President of general affairs and the Deputy Party Secretary of Air China Corporation Limited in October 2002; and served as a director, the President and the Deputy Party Secretary of Air China Limited in September 2004. He served as a Party Member of China National Aviation Holding Company and a Director, the President and the Deputy Party Secretary of Air China Limited in December 2004, and the Vice President and a Party Member of China National Aviation Holding Company from February 2007. In December 2008, he was appointed as the Deputy Party Secretary of China Eastern Air Holding Company and the President and the Deputy Party Secretary of China Eastern Airlines Corporation Limited. He served as the Secretary to the Party Committee and the Vice President of China Eastern Air Holding Company and the President of China Eastern Airlines Corporation Limited in October 2011. In November 2016, he served as a Director, the President and the Deputy Party Secretary of China Eastern Air Holding Company, and the Vice Chairman, the President and the Deputy Party Secretary of China Eastern Airlines Corporation Limited in December 2016. In February 2019, he served as the Director, the President and the Deputy Party Secretary of CSAH. In March 2019, he acted as the President of the Company. In May 2019, he acted as the Vice Chairman of the Company. In December 2020, he served as the President and Party Secretary of CSAH and Chairman and President of the Company.

**Han Wensheng**, male, born in January 1967 (aged 54), graduated from the Management Department of Tianjin University, majoring in engineering management, with qualification of a master's degree. He obtained a master's degree of Engineering and is an economist. He began his career in August 1987 and joined in the Chinese Communist Party in May 1985. He served as the Deputy Director General of Cadre Training Center of the Company, the Director of the Research Bureau of the Company, the General Manager of the Labour Department and the Secretary of the CPC General Committee of the Company, the Deputy Director General and a member of Party Committee of the Commercial Steering Committee, the General Manager as well as the Deputy Party Secretary of the Sales and Marketing Department of the Company, and the General Manager and Deputy Party Secretary of Shanghai base. He acted as the Deputy Party Secretary and the Deputy Director General of the Commercial Steering Committee of the Company since December 2009 and the Party Secretary and the Deputy Director General of the Commercial Steering Committee of the Company since October 2011. He served as the Vice President and the Party Member of CSAH from October 2016. From November 2017, he served as the Vice President and the Party Member of CSAH and the Vice President and Party Member of the Company. He was appointed as a Director and the Deputy Party Secretary of CSAH and the Vice President of the Company in November 2018. From December 2018, he served as the Deputy Party Secretary of the Company. In January 2019, he served as a Director and Deputy Party Secretary of CSAH. In May 2019, he served as a Director of the Company. Currently, he also acts as the Vice Chairman of Sichuan Airlines Corporation Limited and the Standing Committee Member of the 12th session of Guangdong Provincial Committee of Chinese People's Political Consultative Conference.

**Zheng Fan**, male, born in November 1955 (aged 65), graduated with a bachelor's degree from Beijing Normal University majoring in School Education and is a senior expert of political science. Mr. Zheng is a CPC member and began his career in 1974. He served as a teacher of Faculty of Education at Beijing Normal University from February 1982. He worked as a cadre at public relationship department of the Chinese Communist Party Central Committee and was a Deputy Director level investigator from January 1986, Deputy Director-general (temporary post) of public relationship department of CBRC Shenzhen Municipality Luohu District Committee and Deputy Director General (temporary post) of public relationship department of Shenzhen Committee of Communist Party of China from March 1988, Deputy Director of public relationship department of CBRC Shenzhen Municipality Futian District Committee and Office Director of working committee under the CBRC Shenzhen Municipality Committee from March 1991. Since August 1994, he has been appointed as General Manager of general administration office of Overseas Chinese Town Economic Development Company, General Manager's assistant of OCT Group and Managing Director of Overseas Chinese Town (HK) Company Limited since December 1997, Deputy Secretary of the Party Committee, Secretary of Discipline Inspection Commission and Chief Cultural Officer of Overseas Chinese Group Company since August 2000, Secretary of the Party Committee and Vice-President of Overseas Chinese Group Company since March 2008, Secretary of the Party Committee and Vice-Chairman of Overseas Chinese Town Company Limited since January 2010. He acted as Council Member of China Overseas Exchange Association, Director of relation of the Two Shores Across the Strait Association, Vice President of Council for the Promotion of Guangdong-Hong Kong-Macao Corporation and Vice-Chairman of Guangdong Province Association of Entrepreneurs. He was also a Congressman of the 4th term and 5th term of the People's Congress for Shenzhen Municipality and a member of the 11th session of Guangdong Provincial Committee of Political Consultative Conference. Mr. Zheng has been an Independent Non-executive Director of the company since 20 December 2017.

**Gu Huizhong**, male, born in November 1956 (aged 64), graduated with a master's degree from Zhengzhou Aviation Industry Institute and Beihang University majoring in International Finance and is a senior accountant at a professor level. Mr. Gu is a CPC member and began his career in 1974. He served as Deputy Chief and Chief of the General Office of Financial Division of Aviation Industry Department, Director of International Affairs Financial Division of Aviation Industry Corporation of China, General Manager of Zhongzhen Accounting Consultative Corporation, Vice Director General of Financial Department of Aviation Industry Corporation of China and Deputy Director-General of Financial Department of State Commission of Science, Technology and Industry for National Defence. From June 1999 to February 2005, he acted as a member of the Communist Party and Vice President of Aviation Industry Corporation of China I. From February 2005 to August 2008, he acted as a member of Party Leadership Group, Vice President and Chief Accountant of Aviation Industry Corporation of China I. From August 2008 to January 2017, he acted as a member of Party Leadership Group, Vice President and Chief Accountant of Aviation Industry Corporation of China. He previously served as Chairman of AVIC I International Leasing Co., Ltd., Chairman of AVIC I Financial Co., Ltd., Chairman of CATIC International Holdings Limited, Chairman of AVIC Capital Co., Ltd. and Chairman of AVIC International Vanke Company Limited. Currently, he is serving as an external director of Ansteel Group Co., Ltd. and Vice Chairman of the Accounting Society of China. Mr. Gu has been an Independent Non-executive Director of the Company since December 2017.

**Tan Jinsong**, male, born in January 1965 (aged 56), graduated from Renmin University of China with an on-job doctor's degree in Accounting. Mr. Tan is a Chinese Certified Public Accountant and a CPC member. Mr. Tan began his career in 1985 and was a teacher in Shaoyang School of Finance and Accounting of Hunan Province and the Deputy Dean of the School of Management of Sun Yat-sen University. Mr. Tan is currently a professor and a doctorate-tutor of the School of Management of Sun Yat-sen University. He is also a member of the China National MPAcc Education Steering Committee, a member of China Institute of Internal Audit, Vice President of Guangdong Institute of Certified Public Accountants and a Council Member of China Audit Society. Currently, Mr. Tan also serves as the Independent Director of COSCO SHIPPING Specialized Carriers Co., Ltd., Shanghai RAAS Blood Products Co., Ltd., Zhuhai Huafa Industrial Company Limited and Media Real Estate Holding Limited. Mr. Tan has been an Independent Non-executive Director of the Company since December 26, 2013.

**Jiao Shuge**, male, born in February 1966 (aged 55), with a master's degree, first graduated from the Control Theory Faculty of the Department of Mathematics of Shandong University with a bachelor's degree, and then graduated from the Systems Engineering Faculty of No. 2 Research Institute of the Ministry of Aerospace Industry with a master's degree in Engineering. Mr. Jiao has extensive experience in funds management and equity investment. Currently, Mr. Jiao is the Director and President of CDH China Management Company Limited ("CDH Investments") and is the founder of CDH Investments. He was a computer researcher of 710 Research Institute of the former Ministry of Aerospace Industry of China, the Deputy General Manager of Direct Investment Department of China International Capital Corporation Ltd. ("CICC"). Mr. Jiao was the Non-executive Director of China Yurun Food Group Limited and China Shanshui Cement Group Limited. He is also the President of Fujian Nanping Nanfu Battery Company Limited, Inner Mongolia Hetao Spirit Group Company Limited, Wuhu Zhengding Investment Management Co., Ltd. and other companies; He acted as a director of a number of companies including WH Group Limited, Henan Shuanghui Investment & Development Co., Ltd., Joyoung Co., Ltd. and Chery Automobile Co., Ltd.; and also acted as an Independent Director of China Mengniu Dairy Company Limited, the Chairman and Non-executive Director of Mabpharm Limited and Director of associated companies of CDH Investments. Mr. Jiao has been an independent Non-executive Director of the Company since June 30, 2015.

## Supervisors

**Li Jiashi**, male, born in May 1961 (aged 59), graduated from Party School of the Communist Party of China majoring in Economics Management and has a bachelor's degree. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a qualified expert of political science. Mr. Li began his career in August 1976 and joined the Chinese Communist Party in June 1986. In February 1998, he served as the Party Secretary of Guangzhou Nanland Air Catering Company Limited and the Deputy Head (work as Chair) of the Organization Division of the Party Committee of the CSAH in April 1999. Mr. Li served as the Head of the Organization Division of the Party Committee of CSAH in December 1999 and served as the Deputy Secretary of the Disciplinary Committee and the Director of the Disciplinary Committee Office of the Company in December 2003. Mr. Li served as the Secretary of the Disciplinary Committee, Standing Member of the Party Committee and the Director of the Disciplinary Committee Office of the Company in December 2007. Mr. Li has been a Supervisor of the Company since June 2009. He has been the Deputy Team Leader of the Discipline Inspection Commission of CSAH, member of Secretary of the Disciplinary Committee, the Director of the Disciplinary Committee Office and the Standing Member of the Party Committee of the Company in February 2012. He has acted as the Chairman of the Labour Union and the Standing Member of Party Committee of the Company in November 2017. He has acted as the Chairman of the Labour Union of CSAH and the Chairman of the Labour Union and the Standing Member of Party Committee of the Company from January 2018. He has served as the Chairman of the Labour Union of CSAH and the Chairman of the Labour Union of the Company since July 2018. He has served as the Chairman of the Supervisory Committee of the Company since May 2019 and the employees' representative Director of CSAH since August 2019.

**Lin Xiaochun**, male, born in May 1971 (aged 49), graduated from the Peking University Law School with a bachelor's degree of laws, majoring in international law. He obtained his Master of Business Administration from the Beijing University of Technology and the City University of the United States and his Executive Master of Business Administration (EMBA) from the Tsinghua University School of Economics and Management. He obtained qualifications as an Enterprise Legal Adviser and a corporate lawyer. He started his career in July 1995, and joined the Chinese Communist Party in June 1995. He served as the Deputy Director of the legal department of the Company in October 2006, the Deputy General Manager of the legal department of the Company in January 2009, the Deputy Director of the legal department of CSAH and the Deputy General Manager of the legal department of the Company in December 2009, the Director of the legal department of CSAH in May 2013, and the General Manager of the Laws & Standards Division of CSAH and the General Manager of the Laws & Standards Division of the Company in April 2017. He has served as a Supervisor of the Company since May 2019.

**Mao Juan**, female, born in December 1972 (aged 48), obtained a bachelor's degree in accounting from Harbin University of Science and Technology. Ms. Mao began her career in July 1993, and joined the Chinese Communist Party in April 1992. She served as Deputy General Manager of Hainan Branch Comprehensive Trading Company, Deputy Manager of Finance Department in Hainan Branch of the Company and Manager of Audit and System Office of Finance Department in the Company. From August 2011, she acted as Deputy General Manager of Audit Department in the Company and acted as General Manager of Audit Department in the Company since June 2016. She has been the Standing Deputy General Manager of Audit Department in CSAH and the Company from April 2017. She has served as the General Manager of Audit Department of CSAH and the Company since November 2017, and concurrently served as the Supervisor of the Company since December 2017. Currently, she is also the Chairman of the Supervisory Committee of Southern Airlines Group Finance Company Limited and Nan Lung International Freight Limited, as well as the supervisor of Xiamen Airlines Company Limited and Guangzhou China Southern Airlines CDFG Duty Free Co., Ltd.

### Senior Management

**Yao Yong**, male, born in November 1969 (aged 51), graduated with a bachelor's degree of economics from the Department of National Economic Management of Sichuan University, majoring in National Economic Management. He obtained his master's degree of Business Administration from the University of Electronic Science and Technology of China-Webster University. He is a senior accountant, a senior auditor and an ACCA member. He began his career in July 1991, and joined the Chinese Communist Party in June 2004. He served as a Staff Member of the Capital Construction Audit Division of Sichuan Provincial Audit Department, the Senior Staff Member and the Principal Staff Member of the Fixed Assets Investment Audit Division of Sichuan Provincial Audit Department. He served as the Director of the Financial Management Department of Ertan Hydropower Development Co., Ltd. beginning in March 2003; Deputy Chief Accountant and Director of Finance Department of Ertan Hydropower Development Co., Ltd. beginning in July 2007; Chief Accountant and Director of Financial Management Department of Ertan Hydropower Development Co., Ltd. beginning in October 2010; Chief Accountant of Ertan Hydropower Development Co., Ltd. beginning in December 2011; Chief Accountant of Yalong River Hydropower Development Co., Ltd. beginning in November 2012; Director of the Finance Department of State Development & Investment Corporation (renamed as State Development & Investment Corp., Ltd. in December 2017) beginning in June 2017; and Chief Accountant and Party Member of CSAH beginning in March 2021.

**Zhang Zhengrong**, male, born in September 1962 (aged 58), has a college degree from Civil Aviation Flight University of China majoring in Aircraft Piloting. He was graduated from Party School of the Central Committee of CPC majoring in economic management with a bachelor's degree. He also obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He began his career in February 1982, and joined the Chinese Communist Party in April 1988. He served as Vice Captain of Third Flight Corps of Civil Aviation Administration, Vice Captain of Fourth Flight Corps and Captain of First Flight Corps of CSAH. From May 2002, he has been the Deputy General Manager of Civil Aviation Administration of the Company and Captain of First Flight Corps of the Company. From November 2002, he has been General Manager of Department of Security Supervision of the Company, as well as General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company in May 2004. In August 2007, he was appointed as Chief Pilot of the Company and General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company. From March 2009, he has been Chief Pilot and Director of Aviation Security Department of the Company. Since April 2012, he served as the Chief Pilot, COO Flight Safety and Director of Aviation Security Department of the Company and in July 2012, he served as the Chief Pilot and Aviation Security Minister of CSAH. Since April 2014, he has acted as Chief Pilot, COO Flight Safety and Director of Aviation Security Department of CSAH. Since December 2016, he has been Chief Pilot of CSAH. He has served as Chief Operation Officer of the Company since January 2017. Since November 2017, he has been the President Assistant of CSAH and Chief Operation Officer of the Company. From June 2018, he has been the Vice President, Party Member of CSAH and Chief Operation Officer of the Company. In August 2018, he served as the Executive Vice President of the Company. Since November 2018, he acted as the Executive Vice President, Party Member of CSAH and the Executive Vice President of the Company. Currently, he also serves as the chairman of Guizhou Airlines Company Limited.

**Luo Lajun**, male, born in October 1971 (aged 49), graduated from Nanjing University of Aeronautics and Astronautics, majoring in Accounting and also obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He began his career in July 1993 and joined the Communist Party of China in September 1992. He served as the Manager of Finance Department in Shanghai Branch of the Company, Deputy Director of the Purchasing Office in Finance Department of the Company, Deputy Manager and Manager of Finance Department of Guizhou Airlines Company Limited. He has acted as a member of the party committee, Chief Financial Officer and manager of Finance Department of Guizhou Airlines Company Limited in June 2003; Director of Business Assessment Office of the Company in June 2005; Deputy Director of Commercial Steering Committee and General Manager and Party Member of Financing Plan Department of the Company in November 2005; General Manager and Deputy Party Secretary of Freight Department of the Company in February 2009; the General Manager and the Deputy Party Secretary of Dalian Branch of the Company in July 2012; Executive Deputy Director General and the Deputy Party Secretary of Commercial Steering Committee of the Company in November 2016; Director General and the Deputy Party Secretary of Commercial Steering Committee of the Company in August 2017; Executive Vice President and the Party Member of CSAH and Executive Vice President of the Company in March 2019. Currently, he also serves as the Chairman of China Southern Airlines Henan Airlines Company Limited and Shantou Airlines Company Limited.

**Wu Yingxiang**, female, born in November 1973 (aged 47), graduated from Business Administration Department of Central South University of Technology with a bachelor's degree, majoring in International Accounting and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, and she is a Senior Accountant, a Certified Public Accountant and a Chartered Global Management Accountant. Ms. Wu began her career in July 1994, and joined the Chinese Communist Party in November 1992. She served as Assistant Minister of Finance Department of China Southern Airlines (Group) Company beginning in March 2001; Vice Minister of Finance Department of CSAH beginning in September 2005; Minister of Finance Department of CSAH beginning in September 2012; the Head of Performance Appraisal Management Department of CSAH beginning in February 2017; the General Manager of Comprehensive Performance Appraisal Department of CSAH and the Company beginning in April 2017; the General Manager and Deputy Party Secretary of Shantou Airlines Company Limited beginning in September 2018; Party Secretary and Deputy Director General of the Marketing Management Committee of the Company beginning in October 2019; Party Member of CSAH beginning in May 2020; the Executive Vice President and Party Member of CSAH as well as the Executive Vice President of the Company beginning in June 2020.

**Ren Jidong**, male, born in January 1965 (aged 56), Bachelor of Engineering, graduated from Power Engineering Department of Nanjing University of Aeronautics and Astronautics with a bachelor's degree, majoring in Aircraft Engine Design and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, and he is a senior engineer. Mr. Ren began his career in August 1986 and joined the Chinese Communist Party in June 1986. He served as the Deputy Director (deputy general manager) and a member of the Standing Committee of the CPC of Urumqi Civil Aviation Administration (Xinjiang Airlines) and the Deputy General Manager and a member of the Standing Committee of the CPC of Xinjiang Airlines. He acted as the Party Secretary and Deputy General Manager of CSAH Xinjiang Company from June 2004, the Party Secretary and Deputy General Manager of Xinjiang Branch of the Company from January 2005, a member of the Standing Committee of the CPC of the Company from February 2005, Deputy General Manager and a member of the Standing Committee of the CPC of the Company from March 2005, a member of the Standing Committee of the CPC of the Company and the General Manager and Deputy Party Secretary of Xinjiang Branch from January 2007, a member of the Standing Committee of the CPC of the Company from April 2009, Deputy General Manager and a member of the Standing Committee of the CPC of the Company from May 2009 and the Executive Vice President of the Company from July 2018.

**Cheng Yong**, male, born in April 1962 (aged 59), graduated from Civil Aviation Flight College of China majoring in Aircraft Piloting and Civil Aviation Flight University of China majoring in Wingmanship, with a bachelor's degree. He obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a command pilot. He began his career in January 1982, and joined the Chinese Communist Party in August 1984. He has been the Deputy Head of Shenyang Chief Flight Corps Team of China Northern Airlines Company, Vice President of China Northern Airlines Company Tian'e LLC and President of China Northern Airlines Company Sanya Co., Ltd. He served as the General Manager of CSAH Northern Division beginning in November 2004; President and Deputy Party Secretary of Northern Branch of the Company beginning in January 2005; deputy leader of steering group for reorganization of Liaoning Airport Management Group Company, President and Deputy Party Secretary of Northern Branch of the Company beginning in October 2008; Deputy Leader of the steering group for reorganization of Liaoning Airport Management Group Company beginning in January 2009; President and deputy party secretary of Beijing Branch of the Company beginning in April 2009; a member of the Standing Member of Party Committee of the Company and General Manager and Deputy Party Secretary of Beijing Branch of the Company from April 2010; a Standing Member of Party Committee of the Company beginning in July 2017; and the Executive Vice President of the Company beginning in August 2018.

**Wang Zhixue**, male, born in January 1961 (aged 60), has a college degree from Civil Aviation Flight University of China majoring in Aircraft Piloting, and obtained a degree from Civil Aviation Flight University of China majoring in Wingmanship, and is a command pilot. Mr. Wang began his career in February 1981, and joined the Chinese Communist Party in December 1980. Mr. Wang successively served as the Deputy Chief Pilot and Director of the Flight Safety Technology Department of Shantou Airlines Company Limited of CSAH, Deputy Chief Pilot and Manager of the Flight Safety Technology Division of Shantou Airlines Company Limited of CSAH. He also acted as the Deputy General Manager of Shantou Airlines Company Limited of CSAH from June 2002, and the General Manager of the Flight Management Division of the Company from October 2004, and the General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company from February 2009. Mr. Wang has been Chief Pilot and a member of the Standing Committee of the CPC of the Company from July 2012, and Executive Vice President, Chief Pilot and a member of the Standing Committee of the CPC of the Company from August 2012. He has been Executive Vice President and a member of the Standing Committee of the CPC of the Company from December 2016. He has been Executive Vice President of the Company from July 2018, and was appointed as legal representative, vice chairman, President and Deputy Secretary of CPC of Xiamen Airlines Company Limited in February 2019.

**Li Tongbin**, male, born in December 1961 (aged 59), graduated with a bachelor's degree from Northeastern University majoring in Industrial Electric Automation, and Business Administration (MBA) from School of Economics and Management of Hainan University. He obtained an Executive Master of Business Administration (EMBA) Degree from Tsinghua University, and is a senior engineer. Mr. Li began his career in August 1983, and joined the Chinese Communist Party in May 1983. He successively served as the Director of Aircraft Engineering Department and the Director of aircraft maintenance base of China Northern Airlines Company, the General Manager of Jilin Branch of China Northern Airlines Company. He also acted as the Deputy General Manager and Deputy Party Secretary of Zhuhai Airlines Company Limited from September 2004, the General Manager and Deputy Party Secretary of Zhuhai Airlines Company Limited from January 2005, and the Party Secretary and Deputy General Manager of Northern Branch of the Company from April 2012. Mr. Li was the Chief Engineer, General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company from April 2014. He has been the Chief Engineer, a member of the Standing Committee of the CPC, General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company from August 2015. Mr. Li has been the Executive Vice President, Chief Engineer, a member of the Standing Committee of the CPC, as well as General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company since September 2015. From December 2016, he has been Executive Vice President, Chief Engineer and a member of the Standing Committee of the CPC. In July 2018, he was appointed as the Executive Vice President and Chief Engineer of the Company. For now, Mr. Li also serves as Chairman of Guangzhou Aircraft Maintenance Engineering Co., Ltd. and MTU Maintenance Zhuhai Co., Ltd.

**Su Liang**, male, born in April 1962 (aged 59), graduated from the University of Cranfield, United Kingdom with a master's degree majoring in Air Transport Management, and is an engineer. Mr. Su began his career in December 1981, and joined the Chinese Communist Party in May 1996. He successively served as Deputy General Manager of the Flight Operations Division, Deputy General Manager and Manager of Planning and Management Division of CSAH Shenzhen Company. Mr. Su was the Secretary to the Board of the Company from July 2000, the Secretary to the Board and Director General of Company Secretary Office of the Company from December 2003, the Secretary to the Board, Deputy Director General and Party Member of Commercial Steering Committee of the Company from November 2005, the Secretary to the Board and Director General of Company Secretary Office and Deputy Director General and Party Member of Commercial Steering Committee of the Company from February 2006. Mr. Su has been the Chief Economist of the Company since December 2007. For now, he also serves as Director of the Board of Sichuan Airlines Company Limited, Chairman of Southern Airlines Culture and Media Co., Ltd. and China Southern West Australian Flying College Pty Ltd.

**Chen Weihua**, male, born in October 1966 (aged 54), graduated from the School of Law of Peking University with a bachelor's degree, majoring in Law and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, and is an economist, a qualified lawyer in the PRC and a qualified corporate legal counselor. Mr. Chen began his career in July 1988, and joined the Chinese Communist Party in February 2001. He successively served as Deputy Director of Legal Department of China Southern Airlines (Group) Corporation, Deputy Director of the Office (Director of the Legal Division) of the Company and China Southern Airlines (Group) Corporation. Mr. Chen was the Chief Legal Adviser of the Company and Director of the Legal Division of the Company from June 2004. Mr. Chen has been the Chief Legal Adviser and General Manager of the Legal Division of the Company since October 2008. He has served as Chief Legal Adviser of the Company since April 2017. For now, he also acts as Director of the Board of Xiamen Airlines Company Limited.

**Li Shaobin**, male, born in April 1964 (aged 57), graduated with a college degree from Chinese Language and Literature of Xiangtan Teachers' College, and obtained a university degree from the Party School of the Central Committee of CPC majoring in economics and management. He is an expert of political science. He began his career in July 1984, and joined the Communist Party of China in February 1988. He was an officer of Public Relationship Section of Political Department of the Hunan Bureau of Civil Aviation Administration, the Senior Staff Member of Publicity Division of Political Department of the Guangzhou Bureau of Civil Aviation Administration and the Principal Staff Member of Publicity Department of the Company. He served as the Deputy Director of Publicity Department of the China Southern Airlines (Group) Company in September 1994. He had been the Director of Political Division of Flight Department of the Company from December 1999. Mr. Li was the Deputy Party Secretary of Flight Department and Director of Political Division of the Company from May 2002. Subsequently, he was appointed as the Party Secretary of Guangzhou Flight Operations Division of the Company from May 2004. Mr. Li served as the Party Secretary and Vice President of Guangzhou Flight Operations Division of the Company from March 2006. Mr. Li has been the Chairman of the Labour Union of the Company since August 2012 and the Executive Director of the Company since January 2013. Mr. Li served as the President and Deputy Party Secretary of the Training Centre of the Company since April 2017. Mr. Li also has been the Chief Training Officer of the Company since June 2019.

**Xie Bing**, male, born in September 1973 (aged 47), graduated from Nanjing University of Aeronautics and Astronautics, majoring in Civil Aviation Management. He subsequently received a master's degree of business administration from the Management School of Jinan University, a master's degree of business administration (international banking and finance) from the University of Birmingham, Britain and an MBA, an Executive Master of Business Administration (EMBA) degree from Tsinghua University, respectively. Mr. Xie is a Senior Economist, fellow member and FCS of The Hong Kong Institute of Chartered Secretaries, and has the qualification for the Secretary to the Board of companies listed on the Shanghai Stock Exchange and also has the qualification for Company Secretary of companies listed on the Stock Exchange. Mr. Xie began his career in July 1995, and joined the Chinese Communist Party in January 1994. He successively served as the Assistant of the Secretary to the Board of the Company, and the Executive Secretary of the General Office of CSAH. Mr. Xie has been the Secretary to the Board and Deputy Director of the Company Secretary Office of the Company from November 2007. From December 2009, Mr. Xie has been the Secretary to the Board and Director of the Company Secretary Office of the Company. From April 2017, he has been the Secretary to the Board of the Company, Director of the Company Secretary Office of the Company. For now, he also acts as Chairman and Party Secretary of China Southern Airlines Group Capital Holding Limited and Chairman of CSA International Finance Leasing Co., Ltd., Deputy President of Central Enterprises Overseas Students Sodality and a Council Member of The Hong Kong Institute of Chartered Secretaries.

**Feng Huanan**, male, born in November 1962 (aged 58), graduated with a college degree from China Civil Aviation Flying College, majoring in Aircraft Piloting, and obtained a master's degree in Aeronautical Engineering from School of Automation Science and Electrical Engineering of Beijing University of Aeronautics and Astronautics and an Executive Master of Business Administration (EMBA) from Tsinghua University. He is a commanding pilot. Mr. Feng began his career in January 1983, and joined the Chinese Communist Party in October 1986. He successively served as the Director of Zhuhai Flight Training Centre of China Southern Airlines (Group) Company and the Deputy General Manager of Flight Operation Division of the Company. He was the General Manager of Flight Safety Technology Department from December 1999, and the General Manager of Flight Technology Management Department of the Company from November 2002. Mr. Feng also served as the Party Secretary and Deputy General Manager of Guizhou Airlines Company Limited from September 2004, and then served as the General Manager and Deputy Party Secretary of Guizhou Airlines Company Limited from February 2006. He has been the COO Flight Safety of the Company since August 2014.

**Luo Minghao**, male, born in September 1962 (aged 58), graduated from the Civil Aviation Flight College of China majoring in Aircraft Piloting. He graduated with a master's degree from the Party School of Hunan Provincial Committee majoring in economics. He obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is Second Class Pilot. He began his career in July 1982, and joined the Communist Party of China in December 1984. He served as the Deputy General Manager of the flight division of Hunan Branch of CSAH, Deputy General Manager of Bei Hai Sales Department of Hunan Branch of CSAH, and General Manager of Bei Hai Sales Department in Hunan Branch of the Company. He served as the Deputy General Manager of Hunan Branch of the Company in May 2002, General Manager and Deputy Party Secretary of the Cabin Department of the Company in December 2006. He acted as General Manager and Deputy Party Secretary of Dalian Branch of the Company in December 2010, General Manager and Deputy Party Secretary of Guangzhou Flight Department of the Company in July 2012 and Chief Pilot of the Company in March 2018.

**Zhu Hailong**, male, born in December 1963 (aged 57), graduated from Civil Aviation Flight College of China majoring in Aircraft Piloting and possesses post-secondary qualifications. He graduated from the Flight College of Civil Aviation Flight University of China, majoring in aviation transportation with an on-job bachelor's degree. Mr. Zhu holds the title of First Class Pilot. He began his career in January 1983, and joined the Chinese Communist Party in August 1984. He was a pilot of the 15th Fleet of CAAC, a pilot in the Flight Department of the Hainan Branch of the Company, Vice-Captain of the Second Squadron, the Captain of the B737 Squadron, the Deputy General Manager and General Manager of the Flight Department. He served as General Manager's assistant and General Manager of Haikou Flight Department in the Hainan Branch of the Company. He served as Deputy General Manager and a member of the Party Committee of Shantou Airlines Company Limited beginning in June 2007; the Deputy General Manager, the Manager of the Flight Department and a member of the Party Committee in Hubei Branch of the Company beginning in March 2013; the Deputy General Manager and a member of the Party Committee in Shenzhen Branch of the Company beginning in September 2015; and the Deputy General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company beginning in February 2018; the Head of Chief Flight Corps Team and Deputy Party Secretary of the Company beginning in May 2018. In December 2020, he was appointed as the Chief Operation Officer of the Company.

None of our Directors, supervisors or members of our senior management was selected or chosen as a result of any arrangement or understanding with any major shareholders, customers or suppliers. None of the above Directors or Supervisors, senior management of our Company has any family relationship with any Directors, Supervisors, senior management, substantial shareholders of our Company. None of our directors or senior management owns any shares or options in our Group as of April 23, 2021.



## B. COMPENSATION

The aggregate compensation paid to all Directors, Supervisors and Senior Management for 2020 was RMB12.6 million. For the year ended December 31, 2020, we paid an aggregate of approximately RMB1.5 million on behalf of our executive Directors, Supervisors and Senior Management pursuant to the pension scheme and the retirement plans operated by various municipal and provincial governments in which we participate.

Details of the remuneration of Directors and Supervisors for the year ended December 31, 2020 are set out below:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b><i>Executive Directors</i></b>				
Ma Xulun	—	—	—	—
Han Wensheng	—	—	—	—
Wang Changshun	—	—	—	—
<b><i>Independent Non-executive Directors</i></b>				
Zheng Fan	60	—	—	60
Gu Huizhong	60	—	—	60
Tan Jinsong	150	—	—	150
Jiao Shuge	150	—	—	150
<b><i>Supervisors</i></b>				
Li Jiashi	—	—	—	—
Mao Juan	—	706	126	832
Lin Xiaochun	—	633	125	758
Total	420	1,339	251	2,010

## C. BOARD PRACTICES

Each director's service contract with our Company or any of its subsidiaries provides prorated monthly salary upon termination of employment in accordance with his contract. The director is entitled to paid leave under his contract. The term of office of a director is three years. The term of the ninth session of our Board will expire on April 29, 2024. A director may serve consecutive terms upon re-election.

### Strategic and Investment Committee

The Strategic and Investment Committee comprises two members, Mr. Gu Huizhong as an independent non-executive Director and Mr. Jiao Shuge as an independent non-executive Director.

The Strategic and Investment Committee held one meeting in 2020 in accordance with its rules and procedures, and considered a report on the "14th Five-Year" Plan of the Company.

### Audit and Risk Management Committee

The Audit and Risk Management Committee is appointed by our Board and consists of three independent non-executive directors. The current members of the Audit and Risk Management Committee are Tan Jinsong, Gu Huizhong and Jiao Shuge. Tan Jinsong is the Chairman of the Audit and Risk Management Committee. A member may serve consecutive terms upon re-election. At least once a year, the committee is required to meet with our Company's external auditors without any executive members of our Board in attendance. The Audit and Risk Management Committee held nine meetings in 2020, which were attended by all members.

The primary responsibilities of the Audit and Risk Management Committee are to consider the appointment of auditors, review the Company's periodical reports, related party transactions, and hedging and debt financing plans, review the efficiency of risk management and internal control system of the Company and review the internal audit plan. In addition, the Audit and Risk Management Committee also examines the effectiveness of our Company's risk management internal control system, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risks and severity, in order to ensure the effectiveness of our Company's business operations and the realization of our corporate objectives and strategies. The scope of such examinations and reviews includes finance, operations, regulatory compliance and risk management. The Audit and Risk Management Committee also reviews our Company's internal audit plan, and submits relevant reports and concrete recommendations to our Board on a regular basis.

Our Company has an internal audit department which reviews procedures in all major financial and operational activities. This department is led by the head of internal audit.

### **Remuneration and Assessment Committee**

The Remuneration and Assessment Committee is comprised of three members. Currently, the Remuneration and Assessment Committee is chaired by independent non-executive director Gu Huizhong with the executive director Han Wensheng and the non-executive director Zheng Fan as members. The term of office of each member is three years. A member may serve consecutive terms upon re-election. The Remuneration and Assessment Committee held three meetings in 2020, which were attended by all members. The Remuneration and Assessment Committee reviewed the resolutions including the remuneration of senior management, performance contracts for senior management, and the remuneration for independent non-executive directors of the ninth session of our Board.

The responsibilities of the Remuneration and Assessment Committee are to make recommendations on the remuneration policy and structure for directors and senior management of our Company, to establish regular and transparent procedures on remuneration policy development and improvement and submit our Company's "Administrative Measures on Remuneration of Directors" and "Administrative Measures on Remuneration of Senior Management". In particular, the Remuneration and Assessment Committee has the duty to ensure that the directors or any of their associates shall not be involved in the determination of their own remuneration packages.

The Remuneration and Assessment Committee consults, when appropriate, the Chairman and/or the President about its proposals relating to the remuneration of other executive directors. The Remuneration and Assessment Committee is provided with sufficient resources to discharge its duties and professional advice is available if necessary. The Remuneration and Assessment Committee is also responsible for assessing performance of executive directors and approving the terms of executive directors' service contracts. The Remuneration and Evaluation Committee performed all its responsibilities under its terms of reference in 2020.

### **Nomination Committee**

The Nomination Committee was established on June 28, 2007. Before that, nomination of directors and other senior management was mainly undertaken by our Board. According to the Articles of Association, our Board has the authority to appoint from time to time any person as director to fill a vacancy or as additional director. In selecting candidate directors, our Board focuses on their qualifications, technical skills, experiences (in particular, the experience in the industry in which we operate in case of candidates of executive directors) and expected contributions to us.

As of December 31, 2020, the Nomination Committee consists of two members, including Zheng Fan, an independent non-executive director, as the chairman of the committee and Jiao Shuge, an independent non-executive director, as a member. The responsibilities of the Nomination Committee are to make recommendations to our Board in respect of the size and composition of our Board based on the operational activities, assets and shareholding structure of our Company; study the selection criteria and procedures of directors and executives and give advice to our Board; identify qualified candidates for directors and executives; and investigate and propose candidates for directors and managers and other senior management members to our Board.

In accordance with relevant laws and regulations as well as the provisions of the Articles of Association of our Company, the Nomination Committee shall study and determine the selection criteria, procedures and terms of office for directors and managers with reference to our Company's actual situation. Any resolution made in this regard shall be filed with and proposed to our Board for approval and shall be implemented accordingly. The Nomination Committee is provided with sufficient resources to discharge its duties and independently engages intermediate agencies to provide professional advice on its proposals if necessary.

The Nomination Committee held three meetings in 2020 and nominated persons including the members of the ninth session of the Board, Ms. Wu Yingxiang as Executive Vice President of the Company and Mr. Zhu Hai Long as Chief Operating Officer of the Company. The Nomination Committee has performed all its obligations under their terms of reference in 2020.

#### Aviation Safety Committee

The Aviation Safety Committee comprises three members and is chaired by Mr. Ma Xulun. The other two members are Mr. Zheng Fan as an independent non-executive director and Mr. Tan Jinsong as an independent non-executive director.

The Aviation Safety Committee held two meetings in 2020, which were held in accordance with its rules and procedures, and considered a report on the safety production and operation of the Company and work plan in 2020.

### D. EMPLOYEES

As of December 31, 2018, 2019 and 2020, we had 100,831, 103,876 and 100,431 employees, respectively. The table below sets forth the number of our employees by activity as of December 31, 2020. During 2020, we employed 738 temporary employees.

	Employees	% of Total
Pilots	10,827	10.78
Flight attendants	22,674	22.58
Maintenance personnel	16,295	16.23
Passenger transportation personnel	8,625	8.59
Cargo transportation personnel	5,468	5.44
Ground service personnel	11,802	11.75
Flight operation officers	2,479	2.47
Flight security guards	3,528	3.51
Information system personnel	1,860	1.85
Financial personnel	1,912	1.90
Others	14,961	14.90
Total	100,431	100.00

Our employees are members of a trade union organized under the auspices of the All-China Federation of Trade Unions, which is established in accordance with the Trade Union Law of China. One representative of our Company labor union currently serves on the Supervisory Committee of our Company. Each of our subsidiaries has its own trade union. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations, and we believe that our relations with our employees are good.

All employees of our Group receive cash remuneration and certain non-cash benefits. Cash remuneration consists of salaries, bonuses and cash subsidies provided by our Group. Salaries are determined in accordance with the national basic wage standards. The total amount of wages payable by our Group to our employees is subject to a maximum limit based on the profitability of our Group and other factors. Bonuses are based on the profitability of our Group. Cash subsidies are intended as a form of cost-of-living adjustment. In addition to cash compensation, our contract employees receive certain non-cash benefits, including housing, education and health services, and our temporary employees also receive certain health services, housing fund and education.

### ***Employee benefits***

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

### ***Retirement benefits***

Our employees participate in several defined contribution retirement schemes organized separately by the PRC municipal and provincial governments in regions where our major operations are located. We are required to contribute to these schemes at rates ranging from 14% to 16% of salary costs, including certain allowances, in 2020, and from 12% to 16% in 2019. A member of the retirement schemes is entitled to pension benefits from the Local Labor and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of our Group are assumed by these schemes. We, at our sole discretion, have made certain welfare subsidy payments to these retirees.

In 2014, our Company and our major subsidiaries joined a newly defined contribution retirement scheme that was implemented by CSAH. The annual contribution to the Pension Scheme is based on a fixed specified percentage of prior year's annual wage. There will be no further obligation beyond the annual contribution according to the Pension Scheme. The total contribution into the Pension Scheme in 2020 was approximately RMB1,043 million.

### ***Housing fund and other social insurances***

We contribute on a monthly basis to housing funds organized by municipal and provincial governments based on certain percentages of the salaries of employees. Our liability in respect of these funds is limited to the contributions payable in each year.

We also pay cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are reflected in the consolidated income statement.

### ***Termination benefits***

When we terminate the employment relationship with employees before the employment contracts expire, or provide compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognized in the consolidated income statement when both of the following conditions are satisfied:

- We have a formal plan for the termination of employment or made an offer to employees for voluntary redundancy, which will be implemented shortly; and
- We are not allowed to withdraw from termination plan or redundancy offer unilaterally.

### ***Workers' Compensation***

There is no workers' compensation or other similar compensation scheme under the Chinese labor and employment system. As required by Chinese law, however, we, subject to certain conditions and limitations, pay for the medical expenses of any contract employee who suffers a work-related illness, injury or disability, and continue to pay the full salary of, and provide all standard cash subsidies to, such employee during the term of such illness, injury or disability. We also pay for certain medical expenses of our temporary employees.

## E. SHARE OWNERSHIP

None of our directors or senior management owns any shares or options in our Company as of April 23, 2021.

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. MAJOR SHAREHOLDERS

The table below sets forth information regarding the ownership of our share capital as of April 23, 2021 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Beneficially Owned (1)	Percentage of the Respective Class of Shares (2)	Percentage of Total Shares (2)
A shares	CSAH	6,981,865,780	63.16%	45.55%
A shares convertible from A share convertible bonds	CSAH (3)	1,619,031,730	12.78%	9.55%
H shares	HKSCC Nominees Limited	1,750,449,857	40.94%	11.42%
H shares	CSAH (4)	2,279,983,577	53.33%	14.87%
H shares	Nan Lung Holding Limited	2,279,983,577	53.33%	14.87%
A shares	China National Aviation Fuel Group Corporation	457,147,480	4.14%	2.98%
H shares	Hong Kong Securities Clearing Company Limited	696,157,473	16.28%	4.54%
H shares	American Airlines Group Inc. (5)	270,606,272	6.33%	1.77%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC.
- (2) Except for the relevant percentage of the A shares convertible from A share convertible bonds that held by CSAH (see details in note (3) below), percentage of A Shares and percentage of H Shares is based on 11,054,193,246 A Shares and 4,275,144,849 H Shares, respectively, issued as of April 23, 2021. Percentage of total shares is based on 15,329,338,095 shares issued as of April 23, 2021.
- (3) CSAH subscribed for 101,027,580 A Share convertible bonds that were issued by the Company on October 15, 2020. Such A Share convertible bonds are with a nominal value of RMB100 each and the initial conversion price shall be RMB6.24 per share, subject to adjustments under certain circumstances pursuant to the terms of the issuance of such A Share convertible bonds. The conversion rights of such A Share convertible bonds are exercisable from April 21, 2021 to October 14, 2026.  
Based on the conversion price of RMB6.24 per share, which is subject to adjustment, 1,619,031,730 may be issued upon conversion of the A share convertible bonds held by CSAH. The percentage of A shares and percentage of total shares of the A Shares convertible from A share convertible bonds held by CSAH is based on 12,673,224,976 A Shares and 16,948,369,825 shares, respectively, which in each case included the 1,619,031,730 A shares that may be issued upon conversion. If all the A Share convertible bonds held by CSAH are converted, the percentage of A Shares of CSAH would be 67.87% and the percentage of total shares of CSAH would be 50.75% based on 12,673,224,976 A Shares and 16,948,369,825 shares, respectively. As of April 23, 2021, no A Share convertible bonds held by CSAH have been converted.
- (4) CSAH was deemed to be interested in an aggregate of 2,279,983,577 H Shares through its direct and indirect wholly-owned subsidiaries in Hong Kong, of which 31,150,000 H Shares were directly held by Perfect Lines (Hong Kong) Limited (representing approximately 0.73% of its then total issued H Shares) and 2,248,833,577 H Shares were directly held by Nan Lung (representing approximately 52.60% of its then total issued H Shares). As Perfect Lines (Hong Kong) Limited is a wholly-owned subsidiary of Nan Lung, Nan Lung was also deemed to be interested in the 31,150,000 H Shares held by Perfect Lines (Hong Kong) Limited.
- (5) American Airlines Group Inc. was deemed to be interested in 270,606,272 H Shares by virtue of its 100% control over American Airlines.

Shareholders of H Shares and A Shares enjoy the same voting rights with respect to each share. None of our major shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2020, there were 59 registered holders of 1,878,565 American Depositary Shares in the U.S., consisting of 2.20% of our outstanding H shares. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

Our Company is currently a majority-owned subsidiary of CSAH, which is an entity wholly-owned by the Chinese government.

#### B. RELATED PARTY TRANSACTIONS

CSAH is our controlling shareholder. We entered into certain transactions with CSAH and its affiliates in the year ended December 31, 2020 and up to the latest practicable date. We also continued to carry out existing continuing transactions with CSAH and its affiliates in the year ended December 31, 2020. In particular, we believe the following arrangements are material to our operations. We believe that these arrangements have been entered into by us in the ordinary course of business and in accordance with the agreements governing such transactions. For a detailed description of our related party transactions, please see Note 49 to the consolidated financial statements.

## Arrangements with CSAH

### *Trademark License Agreement*

We entered into a ten-year trademark license agreement with CSAH on May 22, 1997, pursuant to which CSAH acknowledged that we have the right to use the name “南方航空(China Southern)” and “中国南方航空(China Southern Airlines)” in both Chinese and English, and grants us a renewable and royalty free license to use the kapok logo on a worldwide basis in connection with our airline and airline-related businesses. Unless CSAH gives a written notice of termination three months before the expiration of the agreement, the agreement will be automatically renewed for another ten-year term. In May 2017, the trademark license agreement entered into between us and CSAH was automatically renewed for ten years.

### *Leases*

We (as lessee) and CSAH or its subsidiaries (as lessor) entered into lease agreements as follows:

- (1) We and CSAH entered into an indemnification agreement dated May 22, 1997 in which CSAH agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use certain lands and buildings.
- (2) We and CSAH entered into an asset lease framework agreement on January 26, 2018 for a term of three years commencing from January 1, 2018 to December 31, 2020 to renew lease transactions originally covered under the asset lease framework agreement dated December 29, 2014. Pursuant to such asset lease framework agreement, CSAH agreed to continue to lease to our Group certain buildings, land and equipment assets at existing locations in Guangzhou, Wuhan, Changsha, Haikou, Zhanjiang and Nanyang. The annual cap for rent payable to CSAH under such asset lease framework agreement is approximately RMB116.20 million for each of the three years ending December 31, 2020. For the year ended December 31, 2020, the rent incurred by the Group amounted to RMB85 million pursuant to such asset lease framework agreement. The agreement expired on December 31, 2020. On December 21, 2020, we entered into a new asset lease framework agreement for a term from January 1, 2021 to December 31, 2023 to renew the transactions contemplated under the existing asset lease framework agreement and the existing building asset lease agreement between us and GSAC. The annual cap for the aggregate amount of rent payable by our Group to CSAH under the new asset lease framework agreement for each of the three years ending December 31, 2023 is RMB346.29 million.
- (3) On December 30, 2019, we entered into a property and land lease framework agreement with CSAH to renew the property and land lease framework agreement dated December 16, 2016 for a term of three years commencing from January 1, 2020 to December 31, 2022. Pursuant to such property and land lease framework agreement, CSAH agreed to (i) lease to us certain properties, facilities and other infrastructure located in various cities such as Beijing, Shenyang, Chaoyang, Dalian, Changchun, Harbin, Jilin, Urumqi and overseas locations held by CSAH or its subsidiaries, (ii) lease certain lands located in Shenyang, Chaoyang, Dalian, Changchun, Harbin and Urumqi by leasing the land use rights of such land to us. The annual rental will be payable on a quarterly basis. The amount of aggregate annual rental payable by us to CSAH under the new property and land lease framework agreement for each of the three years ending December 31, 2022 is RMB96.78 million. For the year ended December 31, 2020, the rents for property lease and land lease incurred by us under the property and land lease framework agreement amounted to RMB83 million.

***Southern Airlines Culture and Media Co., Ltd. (“SACM”), which is 40% owned by us and 60% owned by CSAH***

On December 27, 2018, we entered into a media services framework agreement with SACM to renew the media services framework agreement dated December 30, 2015 for an additional term of three years, commencing from January 1, 2019 to December 31, 2021. Pursuant to this agreement, we have appointed SACM to provide exclusive advertising agency services, plotting, purchase and production of in-flight TV and movie program agency services, channel publicity and production services, public relations services relating to recruitments of airhostess, services relating to the distribution of newspapers and magazines and printing, production and procurement services in relation to media. The annual caps for the media services framework agreement are RMB150 million, RMB170 million and RMB190 million for each of the three years ending December 31, 2021, respectively. On November 29, 2019, we entered into a supplemental agreement with SACM to change the annual cap for the year ended December 31, 2019 from RMB150 million to RMB200.9 million. Annual caps for the two years ending December 31, 2021 remain unchanged.

For the year ended December 31, 2020, the media fees incurred by our Group for the media services amounted to RMB169 million.

***Southern Airlines Group Finance Company Limited (“SA Finance”), which is 51.42% owned by CSAH and 48.59% owned by the Group***

On August 27, 2019, we entered into a financial services framework agreement with SA Finance to renew the financial services framework agreement dated August 29, 2016 for a term of three years commencing from January 1, 2020 to December 31, 2022. Pursuant to this financial services framework agreement, SA Finance will provide to our Group, among other things, deposit services and loan services. Each of the maximum daily balance of deposits (including the corresponding interests accrued thereon) placed by our Group as well as the maximum amount of the outstanding loans provided by SA Finance to our Group (including the corresponding interests payable accrued thereon) for each of the three years ending December 31, 2022 shall not exceed the cap which is set at RMB13.0 billion, RMB14.5 billion and RMB16.0 billion, respectively, on any given day. As of December 31, 2020, our Group’s deposits placed with SA Finance amounted to RMB9,092 million. For the year ended December 31, 2020, the service fee paid by us was nil.

On July 8, 2019, we entered into an entrusted loan agreement with SA Finance and CSAH. Pursuant to this loan agreement, CSAH, as the lender, entrusted SA Finance to provide to us a loan of RMB500 million with a term of three years at the interest rate of 3.915% per annum. All amounts of the loan will be used to build our base in Beijing Daxing Airport. This loan was settled in advance on June 9, 2020 according to the fund utilization plan of the Company.

On September 3, 2019, we entered into another entrusted loan agreement with SA Finance and CSAH. Pursuant to this loan agreement, CSAH, as the lender, entrusted SA Finance to provide to us a loan of RMB4.72 billion with a term of one year at the interest rate of 3.915% per annum. The amounts of the loan will be used to repay outstanding amounts of loans with higher interest rate to CSAH and to supplement our working capital. This loan was settled in advance on May 27, 2020 according to the fund utilization plan of the Company.

***China Southern Airlines Group Property Management Company Limited (“CSAGPMC”), a wholly-owned subsidiary of CSAH***

On December 19, 2017, we entered into a property management framework agreement with CSAGPMC to renew the appointment of CSAGPMC for the provision of property management and maintenance services for our properties at the old Baiyun Airport and the new Baiyun International Airport and surrounding in Guangzhou, our leased properties in the airport terminal at new Baiyun International Airport, the base and the 110KV transformer substation at the new Baiyun International Airport, and for the provision of the property management and maintenance services for the power transformation and distribution equipment at Guangzhou cargo terminal, and the provision of the electricity charge agency services for a term of three years commencing from January 1, 2018 to December 31, 2020. The annual cap for the property management framework agreement is set at RMB155 million for each of the three years ended December 31, 2020, respectively.

For the year ended December 31, 2020, the property management and maintenance fee incurred by our Group amounted to RMB129 million pursuant to the property management framework agreement.

We entered into a new property management framework agreement with CSAGPMC on December 21, 2020 for a term of three years from January 1, 2021 to December 31, 2023 to renew the property management and maintenance transactions originally covered under the property management framework agreement and to enter into property management and maintenance transactions in relation to our additional properties. The annual cap for the management and maintenance services fee payable pursuant to the new property management framework agreement is set at RMB167 million for each of the three years ending December 31, 2023.

***CSA International Finance Leasing Co., Ltd. (the “CSA International”)***

CSA International was previously wholly owned by CSAH, and became a joint venture of CSAH in 2019.

- (1) We entered into a finance lease agreement with Guangzhou Nansha CSA Tianru Leasing Co., Ltd. (the “CSA Leasing Company”), which is wholly owned by CSA International, in relation to one Airbus A321 aircraft (“A321 Finance Lease Agreement”) and a finance lease agreement in relation to one Airbus A330-300 aircraft (“A330 Finance Lease Agreement”) on April 27, 2017, pursuant to which CSA Leasing Company agreed to provide finance leasing to us in relation to one Airbus A321 aircraft and one Airbus A330-300 aircraft, respectively.

Under each of the A321 Finance Lease Agreement and the A330 Finance Lease Agreement, (1) the lease term is 12 years, commencing on the delivery date of the relevant aircraft, (2) the principal amount shall not exceed 100% of the purchase price of the relevant aircraft, (3) the applicable interest rate is 21.6% float down of the interest rate for RMB loan for above 5 years set by the People’s Bank of China, (4) the handling fee for the aircraft shall be paid to CSA Leasing Company in one lump sum prior to the delivery date of the relevant aircraft, and (5) upon the expiry of the lease term, we are entitled to purchase the relevant aircraft back from CSA Leasing Company at a price of RMB10,000. The total rental fee and handling fee may not exceed US\$250.93 million.

- (2) We entered into a 2020-2022 finance and lease service framework agreement (the “Finance and Lease Service Framework Agreement”) with CSA International on October 10, 2019 for a term of three years commencing from January 1, 2020 to December 31, 2022, pursuant to which CSA International agreed to provide to us finance leasing service in relation to the leased aircraft, leased aircraft related assets and leased aviation related equipment and operating lease service in relation to certain aircraft, helicopters and engines.

The total rental fee (including principal and interest) and handling fee under the finance lease service related transactions are US\$5,140 million, US\$5,039 million and US\$4,434 million for the three years ending December 31, 2022, respectively. Pursuant to IFRS 16, the finance lease transactions by us (including our wholly-owned or controlled subsidiaries or their wholly-owned or controlled subsidiaries) as lessee under the Finance and Lease Service Framework Agreement will be recognized as right-of-use assets, and the annual caps for the finance lease for the three years ending December 31, 2022 under the Finance and Lease Service Framework Agreement are US\$3,922 million, US\$3,833 million and US\$3,385 million, respectively.

The total rental fee and handling fee paid by us for finance lease service related transactions under the Finance and Lease Service Framework Agreement was RMB6,485 million for the year ended December 31, 2020. The value of right-of-use assets recognized for finance lease transaction was RMB24,348 million on January 1, 2020.

The maximum annual rental fee under the operating lease service related transactions are US\$135 million, US\$255 million and US\$368 million for the three years ending December 31, 2022 respectively, and the maximum total rental fee under the operating lease transactions are US\$1,385 million, US\$1,213 million and US\$1,201 million for the three years ending December 31, 2022 respectively. Pursuant to IFRS 16, the operating lease service related transactions by us as lessee under the Finance and Lease Service Framework Agreement will be recognized as right-of-use assets, and the annual caps for the operating lease for the years ending December 31, 2022 under the Finance and Lease Service Framework Agreement are approximately US\$1,116 million, US\$961 million and US\$949 million, respectively.



We have paid the rental fees (namely actual amount of rental fees payable to CSA International by us every year, including twelve-month rental fees for current aircraft, helicopters and engines as well as newly added aircraft, helicopters and engines during the year) of RMB105 million for the operating lease service related transactions under the Finance and Lease Service Framework Agreement for the year ended 31 December 2020. The total amount of rental fees of newly added aircraft, helicopters and engines (leased from CSA International by the way of operating lease by us every year with lease term ranging from two to twelve years) was nil. The value of right-of-use assets recognized for operating lease transaction was RMB84 million on 1 January 2020.

For the year ended December 31, 2020, the amount of fees paid by us to CSA International and its subsidiaries for leasing services were RMB38 million.

***Shenzhen Air Catering Co., Ltd. (the “SACC”), which is 50.1% owned by CSAH***

We entered into a catering services framework agreement with SACC on December 27, 2018 to renew the catering services framework agreement dated December 30, 2015 for a term of three years commencing from January 1, 2019 to December 31, 2021. Pursuant to the agreement dated December 27, 2018, SACC agreed to provide the in-flight meal boxes, and order, supply, allot, recycle, store and install the in-flight supply with their respective services for the arrival and departure flights designated by our Group at the airport where SACC is located at. The annual caps for the catering services framework agreement are RMB231 million, RMB266 million and RMB306 million for each of the three financial years ending December 31, 2021, respectively.

For the year ended December 31, 2020, the services fee incurred by our Group to SACC for the catering services amounted to RMB88 million.

***Guangzhou Southern Airlines Construction Company Limited (the “GSAC”), which is wholly owned by CSAH***

We entered into a building asset lease agreement with GSAC on January 19, 2018, pursuant to which GSAC agreed to lease to us (i) certain offices at floors 1-10, 12 and 17-36 in CSA Building located at West Side of Yuncheng East Road, Baiyun Xincheng, Baiyun District, Guangzhou with an aggregate gross floor area of not exceeding 88,396 square meters at an annual rental of not exceeding RMB159,112,800; and (ii) 550 parking lots in CSA Building at an annual rental of not exceeding RMB5,520,000 for a term of three years commencing from January 19, 2018 to January 18, 2021. During the period from January 19, 2018 to December 31, 2018, the year ended December 31, 2019, the year ended December 31, 2020 and the period from January 1, 2021 to January 18, 2021, our maximum rental payable to GSAC under the agreement will be no more than RMB156,513,922, RMB164,632,800, RMB164,632,800 and RMB8,118,878, respectively. For the year ended December 31, 2020, rental paid to GSAC by us was RMB165 million. On December 21, 2020, we and CSAH entered into a new asset lease framework agreement for a term from January 1, 2021 to December 31, 2023 to renew the transactions contemplated under the existing asset lease framework agreement with CSAH and this building asset lease agreement. See “—Arrangements with CSAH”. The building asset agreement with GSAC has expired.

***Disposal of Equity Interests in SAGA***

On November 25, 2020, we entered into a capital increase and equity transfer agreement with SAGA and four investors, including China Southern Power Grid Industry Investment Group Co., Ltd., or CSP Investment Group, Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership), or Shuangbai No. 1, China Southern Airlines Group Capital Holding Limited, or Southern Airlines Capital which is a wholly-owned subsidiary of CSAH, and Zhuhai General Aviation Investment Partnership (Limited Partnership), or ZGA. Pursuant to this agreement, the registered capital of SAGA will be increased from RMB1,000 million to RMB1,342.28 million through the capital contribution to be made by these investors. The Company also agreed to transfer part of its equity interests in SAGA to CSP Investment Group, Shuangbai No. 1 and Southern Airlines Capital.

According to the capital increase and equity transfer agreement, the amounts of capital contribution of CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA were RMB102.58 million, RMB144.66 million, RMB102.58 million and RMB159.91 million, respectively. Meanwhile, the Company will transfer approximately 6.54%, 9.23% and 6.54% of the equity interest in SAGA held by the Company to CSP Investment Group, Shanghai No.1 and Southern Airlines Capital, respectively, for consideration of RMB97.42 million, RMB137.42 million and RMB97.42 million, respectively.

SAGA was a wholly-owned subsidiary of the Company. After completion of the capital contribution and the equity transfer contemplated under the capital increase and equity transfer agreement, SAGA will be owned approximately 57.9%, 10.0%, 14.1%, 10.0% and 8.0% by the Company, CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA, respectively, and continue to be a subsidiary of the Company. As of the date of this Annual Report, the registration with relevant government authority with respect to the capital increase and equity transfer has been completed, and all the investors, except for ZGA, have fully paid their respective capital contributions into SAGA and their respective considerations to the Company in respect of the transfer of relevant equity interests in SAGA.

#### ***Capital Contribution to Xiamen Airlines***

On 21 December 2020, the Company, Xiamen C&D and Fujian Province Investment agreed to make capital contributions, pursuant to which, the Company, Xiamen C&D and Fujian Investment will contribute the amount of RMB2.2 billion, RMB1.36 billion and RMB440 million, respectively to Xiamen Airlines according to the proportion of their respective shareholdings. As of the date of this Annual Report, the capital contribution is still in progress.

#### ***Non-Public Subscriptions for Shares***

- (1) On September 27, 2018, we issued 1,578,073,089 A shares in total to CSAH at issue price of RMB6.02 per A Share pursuant to the subscription agreement dated June 26, 2017 entered into between CSAH and us (as amended by the supplemental agreement I dated September 19, 2017). The gross proceeds and net proceeds raised from such issuance are approximately RMB9,500 million and RMB9,488 million respectively. The parties agreed that the proceeds from such issuance shall be used for the procurement of aircraft and the project for selection and installation of lightweight seats for A320 series aircraft. As of December 31, 2020, the proceeds from this issuance have been utilized.
- (2) On October 30, 2019, we entered into a subscription agreement with CSAH pursuant to which CSAH agreed to subscribe for in cash not more than 2,453,434,457 new A Shares (including 2,453,434,457 A shares) of us. On the same day, we entered into a subscription agreement with Nan Lung, pursuant to which Nan Lung agreed to subscribe in cash for not more than 613,358,614 new H Shares (including 613,358,614 H shares) of us. These subscription agreements were approved in our extraordinary general meeting and the respective class meetings of shareholders of A and H Shares on December 27, 2019. The issuance of such A Shares and H Shares is subject to the approval of the CSRC. On April 8, 2020, the CSRC approved the issuance of H Shares to Nan Lung. On April 15, 2020, we issued 608,695,652 H Shares at a price of HK\$5.75 per H Share. Immediately after completion of such issuance of H Shares, the total amount of our outstanding shares is 12,875,867,938 Shares, comprised of 4,275,144,849 issued H Shares and 8,600,723,089 issued A Shares. We received the "Acceptance Notice of the Application for Administration Permission" issued by the CSRC for the A Share Issuance on January 6, 2020. On April 24, 2020, the Issuance Examination Committee of the CSRC reviewed the application for the A Share Issuance and informed us that our application for the A Share issuance was approved. On May 27, 2020, we received the written approval for A Share issuance from the CSRC. On June 17, 2020, we completed the issuance of 2,453,434,457 A Shares to CSAH at a price of RMB5.21 per A Share. These new A Shares are subject to a 36 month lock up period from the date of the completion of such issuance. Immediately after completion of such issuance of A Shares, the total amount of our outstanding shares is 15,329,302,395 Shares, comprised of 11,054,157,546 issued A Shares and 4,275,144,849 issued H Shares.

### ***Subscription for A Share Convertible Bonds***

On May 14, 2020, the Board considered and approved, among others, the relevant resolutions on the issuance plan of the convertible corporate bonds in the total amount of not more than RMB16 billion (including RMB16 billion) which are convertible into new A Shares and proposed to be issued by us within the PRC (the “A Share Convertible Bonds”) and the possible subscription for the A Share Convertible Bonds by CSAH. CSAH, being our controlling Shareholder, is entitled to the pre-emptive rights to subscribe for the A Share Convertible Bonds under the issuance plan of the A Share Convertible Bonds, which is compliant with the relevant laws, regulations, normative documents and the Articles of Association. The terms of the subscription for A Share Convertible Bonds by CSAH are the same as the terms and conditions which are set out in the issuance plan of the A Share Convertible Bonds. On June 30, 2020, the aforesaid proposed issuance of A Share Convertible Bonds and possible subscription for the A Share Convertible Bonds by CSAH were considered and approved at the 2019 annual general meeting, 2020 first class meeting for holders of A Shares and 2020 first class meeting for holders of H Shares. On October 15, 2020, we completed the public issuance of 160 million A Share Convertible Bonds in the total amount of RMB16 billion with a nominal value of RMB100 each and the initial conversion price of RMB6.24 per share, out of which CSAH subscribed for 101,027,580 A Share Convertible Bonds. As of April 23, 2021, 35,700 A Share convertible bonds were converted to A Shares and no A Share convertible bonds held by CSAH have been converted.

### ***Sichuan Airlines Co., Ltd. (“Sichuan Airline”), which is 39% owned by us***

On August 30, 2019, we entered into a framework agreement on the use of facility with Sichuan Airline, pursuant to which Sichuan Airline will construct a multi-used building. Upon construction completion, Sichuan Airline will lease the building to us for a term of twenty years. The building is expected to be delivered to us by June 30, 2022.

### **Provision of Guarantees to SPV established by us**

As of December 31, 2020, we and our subsidiaries, Xiamen Airlines and Chongqing Airlines, provided guarantees to 44 SPVs that were controlled and consolidated by us, which was approved at our general meeting. The total amount of such guarantee is US\$ 5.12 billion.

## **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

Our audited consolidated financial statements are set forth beginning on page F-1, which can be found after Item 19.

### **Legal Proceedings**

We are currently not a party to any legal, arbitration, or administrative proceedings that our management believes could have a material adverse effect on our business, financial position or results of operations. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business or otherwise. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

### **Dividend Information**

As the Company suffered an operating loss for year of 2020, which does not meet the conditions for profit

distribution as required under the Articles of Association of the Company, the Board did not recommend any payment of cash dividend or conversion of capital reserve into share capital or other profit distribution of the Company for the year of 2020. The abovementioned proposal is still subject to the approval of the 2020 annual general meeting of the Company.

Our Board declares dividends, if any, in Renminbi with respect to H Shares on a per share basis and pays such dividends in Hong Kong dollars. Any final dividend for a fiscal year is subject to shareholders' approval. Bank of New York Mellon, as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less expenses of conversion. Under the Company Law of the PRC and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of the H Shares share proportionately on a per share basis in all dividends and other distributions declared by our Board, if any, based on the foreign exchange conversion rate published by the People's Bank of China, or PBOC, on the date of the distribution of the cash dividend.

During the three years of 2018 to 2020, the aggregate cash dividends the Company distributed exceed the annual average profit distributable to shareholders as shown on the Company's consolidated financial statements. This complies with the Articles of Association, which requires that the aggregate cash dividends distributed in the last three years shall not be less than 30% of the annual average distributable profit of the Company in the last three years.

We believe that our dividend policy strikes a balance between two important goals providing our shareholders with a competitive return on investment and assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives. The declaration of dividends is subject to the discretion of our Board, which takes into account the following factors:

- our financial results;
- capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- our shareholders' interests;
- the effect on our creditworthiness;
- general business and economic conditions; and
- other factors our Board may deem relevant.

Pursuant to PRC laws and regulations and our Articles of Association, dividends may only be distributed after allowance has been made for: (i) recovery of losses, if any, and (ii) allocations to the statutory surplus reserve. The allocation to the statutory surplus reserve is 10% of our net profit determined in accordance with PRC GAAP. Our distributable profits for the current fiscal year will be equal to our net profits determined in accordance with IFRSs, less allocations to the statutory surplus reserve.

## **B. SIGNIFICANT CHANGES**

No significant changes have occurred since the date of the consolidated financial statements.

## **ITEM 9. THE OFFER AND LISTING**

### **A. OFFER AND LISTING DETAILS**

The principal trading market for our Company’s H Shares is the Hong Kong Stock Exchange, and our Company’s trading code is “1055”. Our Company completed our initial public offering of H Shares on July 30, 1997. The ADS, each representing 50 H Shares, have been listed for trading on the New York Stock Exchange since July 31, 1997, under the symbol “ZNH”.

The principal trading market for our Company’s A Shares is the Shanghai Stock Exchange with trading code of “600029”. On July 25, 2003, our Company completed our initial public offering of A Shares.

No significant trading suspension occurred in the prior three years.

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

See “Offer and Listing Details” above.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10.ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

On 29 June 2020, the Company convened the extraordinary meeting of the 8th session of the Board, which considered and passed unanimously the amendments to the relevant clauses of the Articles of Association in accordance with the authorization from the 2019 second extraordinary general meeting of the Company and the results of the non-public issuance, so as to reflect the increase in the registered capital of the Company.

To meet the needs of business operation, the Company proposed to expand the scope of business of the Company to include aviation medical examination services. Accordingly, the Articles of Association of the Company had to be amended to reflect such change to the scope of business. On 21 December 2020, the Company convened the 15th meeting of the 8th session of the Board, which considered and approved, among other matters, the resolution in relation to the proposed amendments to the relevant clauses of the Articles of Association of the Company. Such proposed amendments are subject to the approval of the shareholders by way of a special resolution at the extraordinary general meeting, and the completion of relevant filings or registrations (as applicable) with the relevant government authorities in the People's Republic of China.

Save as disclosed above, no amendments were made to the Articles of Association in 2020.

The following is a summary of certain provisions of our Articles of Association. As this is a summary, it does not contain all the information that may be important to you. You and your advisors should read the text of our most updated Articles of Association for further information, which is filed as an exhibit to this Annual Report.

## **General**

Our Company is registered with and has obtained a business license from the State Administration Bureau of Industry and Commerce of the People's Republic of China on March 25, 1995. On March 13, 2003, our Company obtained an approval certificate from the Ministry of Commerce to change to a permanent limited company with foreign investments.

## **Other Senior Administrative Officers**

Pursuant to the Article 17 of the Articles of Association, other senior administrative officers of our Company refer to the Executive Vice President, Chief Financial Officer, Chief Pilot, COO Flight Safety, Chief Information Officer, Chief Economist, Chief Legal Adviser, Chief Engineer, COO Flight Operations, Company Secretary and other senior management appointed by the Board.

## **Objects and Purposes**

Pursuant to the Article 19 of the Articles of Association, the scope of business of our Company includes: (1) provision of scheduled and non-scheduled domestic, regional and international air transportation services for passengers, cargo, mail and luggage; (2) undertaking general aviation services; (3) provision of aircraft repair and maintenance services; (4) acting as agent for other domestic and international airlines; (5) provision of air catering services; (6) engaging in other airline or airline related business, (limited to insurance agency business personal accident insurance); (7) provision of airline ground services; (8) aviation training; (9) asset leasing services; (10) project management and technical consultancy services; (11) sales of aviation equipment; (12) travel agency business; (13) merchandise retail and wholesale; all subject to approval by company registration authorities.

## **Directors**

Pursuant to Article 175 of the Articles of Association, where a director is interested in any resolution proposed at a board meeting, such director shall abstain from voting and shall not have a right to vote. Such director shall not be counted in the quorum of the relevant meeting. Such directors also shall not vote on behalf of other directors. Board meetings may be convened by more than half of the directors who are not interested in the proposal. Resolutions of board meetings shall be passed by more than half of directors who are not interested in the proposal.

Pursuant to Article 245 of the Articles of Association, where a director of our Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the Board. For the purposes of the Articles of Association, a director is deemed to be interested in a contract, transaction or agreement in which an associate of him is interested.

Pursuant to Article 253 of the Articles of Association, our Company shall, with the prior approval of shareholders in shareholders' general meeting, enter into a contract in writing with a director wherein his emoluments are stipulated. The aforesaid emoluments include, emoluments in respect of his service as director, supervisor or senior administrative officer of our Company or any subsidiary of our Company, emoluments in respect of the provision of other services in connection with the management of the affairs of our Company and any of its subsidiaries, and payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Pursuant to Article 248 of the Articles of Association, our Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director of the Company. However, the following transactions are not subject to such prohibition: (1) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in shareholders' general meeting; (2) the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

There is no specific provisions concerning a director's power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body, other than the above Article 175 with respect to a director's voting power in matters he is materially interested. Directors are not required to hold shares of our Company. Our Articles do not contain any share requirements for the directors to retire by a specified age.

### **Ordinary Shares**

Pursuant to Article 27 of the Articles of Association, subject to the approval of the securities authority of the State Council, our Company may issue and offer shares to domestic investors or foreign investors for subscription. Foreign investors are those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for shares issued by our Company. Domestic investors are those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for shares issued by our Company.

Pursuant to Article 28 of the Articles of Association, shares issued by our Company to domestic investors for subscription in RMB shall be referred to as "Domestic Shares". Shares issued by our Company to foreign investors for subscription in foreign currencies shall be referred to as "Foreign Shares". Foreign Shares which are listed overseas are called "Overseas Listed Foreign Shares". The foreign currencies mean the legal currencies (apart from RMB) of other countries or regions which are recognized by the foreign exchange control authority of the state and can be used to pay our Company for the share price.

Pursuant to Article 29 of the Articles of Association, Domestic Shares issued by our Company shall be called "A Shares". Overseas Listed Foreign Shares issued by our Company and listed in Hong Kong shall be called "H Shares". H Shares are shares which have been admitted for listing on the Stock Exchange of Hong Kong Limited, the par value of which is denominated in RMB and which are subscribed for and traded in Hong Kong dollars. H Shares can also be listed on a stock exchange in the United States of America in the form of ADS. Shares issued by our Company, including Domestic Shares and Foreign Shares, are all ordinary shares.

Pursuant to Article 63 of the Articles of Association, the ordinary shareholders of our Company shall enjoy the following rights:

- (1) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (2) the right to dividends and other distributions in proportion to the number of shares held;
- (3) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;

- (4) the right to transfer, donate or pledge his shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (5) the right of knowledge and decision making power with respect to important matters of the Company in accordance with laws, administrative regulations and these Articles of Association;
- (6) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  - (i). the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (ii). the right to inspect and copy, subject to payment of a reasonable charge;
  - (iii). all parts of the register of shareholders;
    - (a). personal particulars of each of the Company's directors, supervisors, president and other senior administrative officers, including:
      - (aa) present name and alias and any former name or alias;
      - (bb) principal address (residence);
      - (cc) nationality;
      - (dd) primary and all other part-time occupations and duties;
      - (ee) identification documents and their relevant numbers;
    - (b). state of the Company's share capital;
    - (c). reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of last accounting year and the aggregate amount paid by the Company for this purpose;
    - (d). minutes of shareholders' general meetings and accountants' report; and
    - (e). interim and annual reports of the Company.
- (7) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;
- (8) the right to request the company to repurchase their shares as a result of disagreement on the resolutions passed by the shareholders' general meeting on the merger or division of the Company; and
- (9) other rights conferred by laws, administrative regulations and these Articles of Association. According to Article 270, dividends shall be distributed in accordance with the proportion of shares held by shareholders.

According to Article 38 of the Articles of Association, our Company may repurchase its issued shares under the following circumstances: (1) cancellation of shares for the reduction of its capital; (2) merging with another company that holds shares in our Company; (3) awarding its employees with shares; (4) at the request of the dissenting shareholders; and (5) other circumstances permitted by laws and administrative regulations.



According to Article 42 of the Articles of Association, unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares: (1) where our Company repurchases shares of our Company at par value, payment shall be made out of book surplus distributable profits of our Company or out of proceeds of a fresh issue of shares made for that purpose; (2) where our Company repurchases shares of our Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of our Company or out of the proceeds of a fresh issue of shares made for that purpose: (i) If the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; (ii) If the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased or the current amount (including the premiums on the fresh issue) of the Company's premium account (or capital common reserve fund account) at the time of the repurchase; (3) payment by our Company in consideration of the following shall be made out of our Company's distributable profits: (i) acquisition of rights to repurchase shares of our Company; (ii) variation of any contract to repurchase shares of our Company; and (iii) release of any of our Company's obligation under any contract to repurchase shares of our Company; and (4) After our Company's registered capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of our Company for paying up the par-value portion of the shares repurchased shall be transferred to our Company's premium account (or capital common reserve fund account).

According to Article 68 of the Articles of Association, shareholders of our company have the obligation not to withdraw their shares unless required by laws and regulations; shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

According to Article 267 of the Articles of Association, when distributing each year's after-tax profits, our Company shall set aside 10% of such profits for our Company's statutory common reserve fund, except where the accumulated balance of the said fund has reached 50% of our Company's registered capital. After our Company has allocated its after-tax profits to the statutory common reserve fund, we may, with the approval of the shareholders by way of resolution in a shareholders' general meeting, further allocate its after-tax profits to the discretionary common reserve fund.

The Articles of Association does not have specific provisions discriminating against any existing or prospective holder of such securities as a result of other shareholders owning a substantial number of shares.

#### **Action Necessary to Change Rights of Shareholders**

Pursuant to Article 152 of the Articles of Association, shareholders who hold different classes of shares are shareholders of different classes. The holders of the Domestic Shares and holders of Overseas Listed Foreign Shares are deemed to be shareholders of different classes.

Pursuant to Article 153 of the Articles of Association, rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting.

Pursuant to Article 155 of the Articles of Association, shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of the following matters: (i) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class; (ii) to restrict the transfer or ownership of the shares of such class or add to such restriction; (iii) to restructure our Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and (iv) to vary or abrogate the provisions of these Articles of Association. However, interested shareholder(s) shall not be entitled to vote at class meetings.

Pursuant to Article 156 of the Articles of Association, resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Pursuant to Article 157 of the Articles of Association, written notice of a class meeting shall be given forty-five days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to our Company twenty days before the date of the class meeting. If the number of shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches more than one half of the voting shares at the class meeting, our Company may hold the class meeting; if not, our Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the date and the place for the class meeting. Our Company may then hold the class meeting after such publication of notice.

Pursuant to Article 158 of the Articles of Association, notice of class meetings need only be served on shareholders entitled to vote thereat. Meeting of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of these Articles of Association relating to the manner to conduct any shareholders' general meeting shall apply to any meeting of a class of shareholders.

### **Meetings of Shareholders**

According to Article 79, shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by our Board. Annual general meetings are held once every year and within six months from the end of the preceding financial year.

According to Article 80, under any of the following circumstances, our Board shall convene an extraordinary general meeting within two months: (1) the number of directors is less than that is required by the Company Law or two thirds of the number of directors specified in these Articles of Association; (2) the accrued losses of our Company amount to one third of the total amount of its share capital; (3) shareholder(s) individually or jointly holding 10% or more of our Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting; (4) it is deemed necessary by the Board or requested by the supervisory committee to convene an extraordinary general meeting; (5) more than one half of the independent directors propose to convene the meeting.

According to Article 92 of the Articles of Association, notice of a shareholders' general meeting shall be given by way of announcement or by any other manner as provided in these Articles of Association (if necessary), not less than forty-five days (including forty-five days) before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered, the date and the place of the meeting.

According to Article 93 of the Articles of Association, our Company shall, based on the written replies received twenty days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of our Company's total voting shares, our Company may hold the meeting; if not, then our Company shall within five days notify the shareholders again by public notice of the matters to be considered, the place and date for, the meeting. Our Company may then hold the meeting after such publication of notice.

### **Limitation on Right to Own Securities**

The Articles of Association does not specifically provide for the limitations on the rights to own securities by certain shareholders, however, the PRC Special Regulations on Overseas Offering and the Listing of Shares by Companies Limited by Share (the "Special Regulations") and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for different classes of shares to be subscribed for and traded by local and overseas investors respectively. Shares which can be traded by overseas investors must be in registered form and while denominated in Renminbi, they are traded in foreign currency with dividends payable in foreign currency. Local investors are prohibited from dealing in such shares.

## **Merger, Acquisition or Corporate Restructuring**

Pursuant to Article 295 of the Articles of Association, in the event of the merger or division of our Company, a plan shall be presented by our Company's Board and shall be approved in shareholders' general meeting and the relevant examining and approving formalities shall be processed as required by law. A shareholder who objects to the plan of merger or division shall have the right to demand our Company or the shareholders who consent to the plan of merger or division to acquire that dissenting shareholder's shareholding at a fair price. The contents of the resolution of merger or division of our Company shall be made into special documents for shareholders' inspection. Such special documents shall be sent by mail to holders of Overseas-Listed Foreign Shares.

## **Ownership to Be Disclosed**

The Articles of Association do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed.

## **Certain Differences between PRC Company Law and Delaware Corporate Law**

The PRC company law and other laws applicable to us differ in a number of respects from laws generally applicable to United States corporations and their shareholders. The description set forth below includes a summary of certain provisions of the PRC company law, Special Rules, Mandatory Provisions and the Guidelines applicable to companies listed both in the PRC and overseas, such as us, which differ from provisions of the corporate law of the State of Delaware.

### ***General***

We are a PRC joint stock company, which is a corporate entity organized under the PRC company law. Under the PRC company law, the registered capital of a joint stock company is divided into shares of equal par value. These shares are commonly called domestic ordinary shares. Each share of a joint stock company ranks equally with all other shares in its class as to voting rights (except for specified class voting rights) and rights to dividends and other distributions. Upon receiving approval from the relevant authorities, a joint stock company may offer its shares for sale to the public and seek to be listed on a stock exchange. The State Council may formulate separate regulations for the issuance of other classes of shares, including H shares. All of our issued shares are fully paid and nonassessable. Holders of H shares may transfer their shares without the approval of other shareholders. Among other things, a joint stock company must have (1) a board of directors of not fewer than five and not more than 19 members, and (2) a board of supervisors of not fewer than three members.

The shareholders' meeting of a joint stock company is the highest authority of the company and exercises the powers of the company with respect to significant matters, subject to applicable law and the articles of association of the company. The business of a joint stock company is under the overall management of a board of directors, subject to the PRC company law, other applicable laws and regulations (which in our case include the PRC aviation law and regulations), the company's articles of association and duly adopted resolutions of its shareholders. The day-to-day operations of a joint stock company are under the direction of its general manager or president, subject to applicable laws and regulations, the company's articles of association and duly adopted resolutions of the directors and shareholders. In addition, the PRC company law provides for the establishment of a board of supervisors for each joint stock company. The supervisors perform and exercise the functions and powers described below, including examination of the joint stock company's affairs and monitoring the actions of the directors and officers of the company. The directors, supervisors and officers are not required to hold any qualifying shares in the joint stock company.

A joint stock company may be liquidated involuntarily due to insolvency or voluntarily in accordance with the terms of its articles of association or duly adopted shareholders' resolutions. The property of a joint stock company remaining after full payment of its liquidation expenses, wages, labor insurance premiums of its employees and statutory compensations, outstanding taxes and debts, is distributed in proportion to the holdings of its shareholders.

### ***Meetings of shareholders***

Under PRC law, shareholders are given the power to approve specified matters. In addition, the Mandatory Provisions provide that at shareholders' meetings shareholders are entitled to consider any proposals made by shareholders holding in the aggregate at least 3% of voting power over the company's shares. These proposals must fall within the scope of powers of the shareholder's meeting, have a clear agenda and specific matters and comply with laws, administrative regulations and articles of association of the company.

Under Delaware law, the business and affairs of a Delaware corporation are, in general, managed by or under the direction of its board of directors. Only certain fundamental matters regarding the corporation are reserved by statute to be exercised by the shareholders. These matters include, in general, election or removal of directors, retention or dismissal of the corporation's independent auditors, mergers or other business combinations involving the corporation, amendment of the corporation's certificate of incorporation and liquidation or dissolution of the corporation.

### ***Shareholders' approval by written consent***

PRC law does not provide shareholders of overseas listed joint stock companies with rights to approve corporate matters by written consent. Under Delaware law, unless otherwise provided in the certificate of incorporation, any action which is required or permitted to be taken at any shareholders' meeting may be taken without a meeting, subject to various conditions.

### ***Amendments of articles of association***

Under PRC law, an amendment of the articles of association must be approved by an affirmative vote of two-thirds of shareholders attending a shareholders' meeting. Amendments with respect to the Mandatory Provisions only become effective after approval by the relevant governmental department authorized by the State Council and the China Securities Regulatory Commission.

Under Delaware law, with certain exceptions, shareholder approvals must be obtained for any amendment to the certificate of incorporation. Board approvals are also required for any amendment to the certificate of incorporation, but no governmental approval is generally required.

### ***Powers and responsibilities of directors***

Under PRC law, the board of directors is responsible for specified actions, including the following functions and powers of a joint stock company:

- convening shareholders' meetings and reporting its work to shareholders at these meetings;
- implementing shareholders' resolutions;
- determining the company's business plans and investment proposals;
- formulating the company's annual financial budgets and final accounts;
- formulating the company's profit distribution plans and loss recovery plans;
- formulating proposals for the increase or decrease in the company's registered capital and the issue of debentures;

- formulating major acquisition and disposal plans and plans for the merger, division or dissolution of the company;
- to the extent authorized by the shareholders' meeting, deciding on such matters as external investments, purchase or sale of assets, assets pledge and connected transactions of the company;
- deciding on the company's internal management structure and formulating its basic management system; and
- appointing or removing the company's principal executive officers; appointing and removing other senior officers based on the recommendation of the principal executive officer and deciding on the remuneration of the senior officers.

In addition, the Mandatory Provisions provide that the board of directors has the authority to formulate any proposal to amend the articles of association and to exercise any other power conferred by a decision of the shareholders' meeting.

Under Delaware law, the business and affairs of a Delaware corporation are managed by or under the direction of its board of directors. Their powers include fixing the remuneration of directors, except as otherwise provided by statute or in the certificate of incorporation or by-laws of the corporation.

#### ***Powers and responsibilities of supervisors***

Under PRC law, a PRC joint stock company must have a board of supervisors consisting of shareholder representatives and one or more employee representatives. Supervisors attend board meetings as non-voting observers. Directors and officers may not serve as supervisors. The supervisors perform and exercise the following functions and powers:

- examining the company's financial affairs;
- monitoring compliance with laws, regulations, the articles of association of the company and the shareholders resolutions by the directors and officers of the company; and suggesting removing the directors and officers who violate these laws and regulations;
- requiring corrective action from directors and officers whose actions are contrary to the interests of the company;
- examining the financial information, including financial statements, operation reports and plans for profit distribution, to be submitted by the board of directors to the shareholders' meetings; and authorizing, in the company's name, public certified accountants or licensed auditors to assist in the re-examination of such information, should any doubt arise in respect thereof;
- proposing the holding of extraordinary shareholders' meetings;
- proposing new items to be inserted in the agenda of the shareholders' meeting;
- bringing lawsuits against directors or members of senior management, if they violate laws, regulations or articles of association of the company; and
- exercising and performing other powers and functions provided for in the company's articles of association.

In addition, the Mandatory Provisions provide that supervisors of overseas listed joint stock companies are entitled to retain auditors in the name of the company to examine any financial or business reports or profit distribution proposals to be submitted by the directors to a meeting of the shareholders which the supervisors consider questionable, and negotiate or take legal action against any director or the directors in the name of the company. The fees and expenses of attorneys and other professionals incurred by the supervisors in connection with the discharge of their duties are to be paid by the company.

Delaware law makes no provision for a comparable corporate institution.

#### ***Duties of directors, supervisors and officers***

Under PRC law, directors, supervisors and officers of a joint stock company are required to comply with relevant laws and regulations and the company's articles of association. A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties shall be personally liable to the company for any loss incurred by the company. Directors, supervisors and officers are required to carry out their duties honestly and diligently, and protect the interests of the company. They are also under a duty of confidentiality to the company and prohibited from divulging confidential information concerning the company, except as permitted by relevant laws and regulations or by a decision of a shareholders' meeting. They may not use their position and authority in the company to seek personal gain. Directors and officers may not directly or indirectly engage in the same business as the company or in any other business detrimental to the interests of the company, and they are required to forfeit any profits from these activities to the company.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

#### ***Limitations on transactions with interested directors, supervisors and officers***

Under PRC law, directors and officers of a joint stock company may not enter into any contracts or transactions with the company unless permitted by the articles of association or approved by the shareholders. A company may not provide any guarantees to shareholders or any de facto control person of the company unless such guarantees are approved by a majority of shareholders present at the shareholders' meeting, excluding the shareholder who will be provided such guarantees. Under the Mandatory Provisions, a director, supervisor or officer is required to disclose to the board any transaction with the company in which he has a direct or indirect interest or in which there is a material conflict of interest between the company and himself. A director is not entitled to vote or be counted for quorum purposes in any board decision on any such transaction. A company may set aside any interested transaction which did not comply with these requirements, unless the other party to such transaction was honestly unaware of the breach of obligations by the interested director, supervisor or officer. A company may not loan or provide any guarantees to directors, supervisors or officers (including persons related to them), except for the loans made in accordance with employment contracts approved by the shareholders, or unless the company's business scope allows for the provision of loans and guarantees and such loans or guarantees are made under regular commercial terms.

Under Delaware law, an interested transaction is not voidable if (1) the material facts as to the interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which such a director derived an improper personal benefit.

#### ***Election and removal of directors***

Under PRC law, the term of office of directors of a joint stock company must be specified in the articles of association, but may not exceed three years. Directors may be re-elected. No director may be removed from office without cause by shareholders prior to the expiration of the director's term. PRC law does not contemplate a classified board of directors.

Under Delaware law, directors of a Delaware corporation can be removed from office with or without cause by the holders of a majority of shares then entitled to vote at an election of directors, provided that except where the certificate of incorporation of the Delaware corporation otherwise provides, a member of a classified board may be removed by shareholders only for cause, and in a corporation with cumulative voting, if less than all of the directors are removed, no director may be removed if the votes cast against the director's removal is sufficient to elect the director if cumulatively voted at an election of directors. The Court of Chancery may remove a director who has been convicted of a felony or found by a court to have committed a breach of the duty of loyalty in connection with his or her duties to the corporation following application by the corporation or derivatively in the right of the corporation by any shareholder. The court may order the removal only if it determines that the director did not act in good faith in performing the acts resulting in the prior conviction or judgment and that removal is necessary to avoid irreparable harm to the corporation.

#### ***Dividend payments***

Under PRC law, proposals for distribution of profits are formulated by the board of directors and submitted for shareholder approval at a shareholders' meeting. Dividends may be distributed in the form of cash or shares.

Under Delaware law, the board of directors of a Delaware corporation may declare dividends out of distributable earnings and profits without the approval of the shareholders.

#### ***Amalgamations and business combinations; appraisal rights***

Under PRC law, amalgamations and divisions involving joint stock companies are required to be approved by shareholders voting at a shareholders' meeting. The Mandatory Provisions require an amalgamation or division involving the company to be approved by an affirmative vote of two-thirds of the votes present at the shareholders' meeting called to consider the transaction. Any opposing shareholder may request the company or the consenting shareholders to purchase its shares at a fair price. In addition, a sale of fixed assets having a value exceeding 33% of the fixed assets as shown on the company's latest balance sheet most recently reviewed by the shareholders' meeting requires the approval of at least one third of the shareholders' meeting.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and holders of a majority of the outstanding shares entitled to vote. A shareholder objecting to the merger is entitled to appraisal rights pursuant to which the shareholder may receive cash in the amount of the fair value of the shares held by such shareholder (as determined by a court) in lieu of the consideration the shareholder would otherwise receive in the transaction.

#### ***Transactions with significant shareholders***

Under Delaware law, a business combination between a Delaware corporation and an interested shareholder which takes place at any time during a period of three years commencing with the date the interested shareholder became an interested shareholder would need prior approval from the board of directors or a supermajority of the shareholders of the corporation, unless the corporation opted out of the relevant Delaware business combination statute. Under Delaware law, an interested shareholder of a corporation is someone who, together with its affiliates and associates, owns more than 15% of the outstanding common shares of the corporation. No such business combination statute or regulation applies to PRC joint stock companies.

#### ***Shareholders' lawsuits***

The PRC law provides that most disputes involving an H shareholder are to be resolved by final and binding arbitration.

Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law.

### ***Limitations on liability and indemnification of directors and officers***

PRC law does not provide for any specific limitations on liability or indemnification of directors and officers.

Under Delaware law, a corporation may indemnify a current director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, the director or officer had no reasonable cause to believe that his conduct was unlawful. Persons serving at the request of the corporation as directors, officers, employees or agents of another entity such as a subsidiary or an employee stock trust may receive advancement of expenses from the corporation. A corporation may not retroactively impair or eliminate indemnification or advancement rights by amending the corporation's certificate of incorporation or bylaws after the occurrence of the act or omission that gives rise to indemnification or advancement rights, unless the provision contains, at the time of the act or omission, an explicit authorization of such elimination or limitation.

### ***Shareholders' rights of inspection of corporate records***

Under PRC law, shareholders are entitled to inspect the articles of association, register of shareholders, corporate bond counter foils, minutes of shareholders' meetings and board meetings and reports of the financial accounts of the company. In addition, the Mandatory Provisions provide that, after paying reasonable fees, shareholders are entitled to inspect the company's shareholder list, certain personal information on the directors, supervisors and officers, the company's capital position and certain information regarding share repurchases conducted by the company during the most recent fiscal year.

Delaware law permits any shareholder of a Delaware corporation to examine or obtain copies of or extracts from the corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

## **C. MATERIAL CONTRACTS**

Other than contracts that are described under Item 4 "Information on the Company" and Item 7 "Major Shareholders and Related Party Transactions", we have not entered into any material contracts outside the ordinary course of our business within the two years immediately preceding the date of this annual report.

## **D. EXCHANGE CONTROLS**

Under current Chinese foreign exchange regulations, Renminbi is fully convertible for current account transactions, but is not freely convertible for capital account transactions. Current account foreign currency transactions can be undertaken without prior approval from the relevant Chinese government agencies by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign currency transactions. Conversion from Renminbi into a foreign currency or vice versa for purposes of capital account transactions requires prior approvals of relevant Chinese government agencies. This restriction on capital account transactions could affect the ability of our Company to acquire foreign currency for capital expenditures.

Our Company is generally required by law to sell all its foreign currency revenue to Chinese banks. Our Company may purchase foreign currency directly from Chinese banks for any current account transactions, such as trade transactions in our usual and normal course of business, including acquisition of aircraft, jet fuel and flight equipment (such acquisition requires approvals from the relevant Chinese government agencies). Payment of dividends by our Company to holders of our Company's H Shares and ADSs is also considered a current account transaction under Chinese law. Therefore, there is no legal restriction on the conversion of Renminbi into foreign currency for the purpose of paying dividends to such holders of H Shares and ADSs. In addition, our Company's Articles of Association require our Company to pay dividends to holders of our Company's H Shares and ADSs in foreign currency.



The People's Bank of China has decided to improve quotation of the central parity of RMB against US dollar. Effective from August 11, 2015, the quotes of central parity that market makers report to the China Foreign Exchange Trade System daily before market opens should refer to the closing rate of the inter-bank foreign exchange market on the previous day, in conjunction with demand and supply condition in the foreign exchange market and exchange rate movement of the major currencies. As a result, the RMB central parity entered a more market-oriented stage.

The PRC government has stated publicly that it intends to further liberalize its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar. Any significant revaluation of the Renminbi may have a material adverse effect on our Company's financial performance, and the value of, and any dividends payable on, our Company's H Shares and ADSs in foreign currency terms.

#### **Other Limitations**

There are no limitations on the right of non-resident or foreign owners to hold or vote H Shares or ADSs imposed by Chinese law or by the Articles of Association or other constituent documents of our Company. However, under current Chinese law, foreign ownership of our Company may not exceed 49%.

### **E. TAXATION**

#### **Chinese Taxation**

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of A Shares, H Shares and ADSs. This summary is based upon tax laws of China as in effect on the date of this Annual Report, including the income tax treaty between the United States and China (the "U.S.-PRC Tax Treaty"), all of which are subject to change or different interpretation.

In general, for Chinese tax purposes, holders of ADSs will be treated as the owners of the H Shares represented by those ADSs, and exchanges of H Shares for ADSs, and ADSs for H Shares, will not be subject to taxation under the laws of China.

This summary does not purport to address all material tax consequences for holders or prospective purchasers of A Shares, H Shares or ADSs, and does not take into account the specific circumstances of such investors. Investors should consult their own tax advisors as to Chinese or other tax consequences of the acquisition, ownership and disposition of A shares, H Shares or ADSs.

#### ***Dividends***

The new corporate income tax law and its relevant regulations generally provide for the imposition of a withholding tax on dividends paid by a Chinese company to a non-resident enterprise at a rate of 10%.

China currently has double-taxation treaties with a number of countries, such as Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under the U.S.-PRC Tax Treaty, China may tax a dividend paid by our Company to a U.S. holder up to a maximum of 10% of the gross amount of such dividend.

For individuals, Chinese tax law generally provides that an individual who receives dividends from Chinese companies is subject to a 20% individual income tax. A 50% reduction of taxable income is granted by Chinese tax law for an individual receiving dividends from a listed company on Shanghai Stock Exchange or Shenzhen Stock Exchange. As a result, the effective tax rate for dividends received by A share individual holder is 10% in 2019. Dividend income received by any foreign individual that holds overseas shares in Chinese enterprise is generally subject to individual income tax at a flat rate of 20%, subject to exemption or reduction by an applicable double-taxation treaty.

Where an individual acquires the stocks of a listed company from public offering of the company or from the stock market, if the stock holding period is one month or less, the incomes from dividends and bonuses shall be included into the taxable incomes in full amount and be taxed at a rate of 20%; if the stock holding period is more than one month up to one year, the incomes from dividends and bonuses shall be included into the taxable incomes at the reduced rate of 50% for the time being, namely, individual income tax shall be calculated at the tax rate of 20% ; and if the stock holding period is more than one year, the incomes from dividends and bonuses shall be temporarily exempted from individual income tax.

#### ***Capital Gains from Transfer or Disposition of Shares***

The new corporate income tax law and its relevant regulations generally provides that a non-resident enterprise is subject to a 10% capital gains tax for the transfer or disposition of shares of a Chinese company.

For individual shareholders, Chinese tax law generally provide that an individual who transfers or otherwise disposes of a company's shares of capital stock is subject to a 20% individual income tax on the capital gain, if any. Currently, all individuals are temporarily exempt from individual income tax on transfers of shares of joint stock companies listed on Shanghai Stock Exchange or Shenzhen Stock Exchange, such as our Company. Should such temporary exemption be discontinued, such holders may be subject to a 20% individual income tax on the capital gain, if any, unless reduced by an applicable double-taxation treaty.

#### **Hong Kong Taxation**

The following is a discussion of the material Hong Kong tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under the tax laws of Hong Kong. This discussion is based on the tax laws of Hong Kong as in effect on the date of this annual report, which are subject to change (or changes in interpretation), possibly with retroactive effect. This discussion does not address any aspects of Hong Kong taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Hong Kong and other tax consequences of owning and disposing of H shares.

#### ***Tax on Dividends***

Under current practice, no tax is payable in Hong Kong in respect of dividends paid by us.

#### ***Tax on Gains from Sale***

No tax is imposed in Hong Kong in respect of capital gains from the sale of property. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is imposed at the rate of 16.5% on corporations and at a rate of 15% on unincorporated businesses for the year of assessment 2008/09 onwards. Commencing from the year of assessment 2018/19 (i.e. on or after 1 April 2018), the profits tax rate for the first HK\$2,000,000 of profits of corporations will be lowered to 8.25% while the remaining profits will continue to be taxed at the rate of 16.5%; and the profits tax rate for the first HK\$2,000,000 of profits of unincorporated businesses will be lowered to 7.5%, while the remaining profits will continue to be taxed at the rate of 15%.

Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, for example, on the New York Stock Exchange.

### ***Stamp Duty***

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$ 5.00 is currently payable on any instrument of transfer of H shares. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

The withdrawal of H shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a passing of the beneficial interest in the H shares under Hong Kong law. The issuance of the ADRs upon the deposit of H shares issued directly to the depository of the ADSs, or for the account of the depository, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### ***Estate Duty***

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

### **United States Federal Income Taxation**

This discussion describes general U.S. federal income tax consequences of the purchase, ownership and disposition of our Company's ADSs for U.S. Holders. This discussion does not address any aspect of U.S. federal gift or estate tax (or tax consequences for any beneficiary receiving the Company's ADSs from a deceased holder or by gift), or the state, local or foreign tax consequences of an investment in our Company's ADSs. This discussion applies to you only if you hold and beneficially own our Company's ADSs as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- insurance companies;
- tax-exempt organizations, retirement plans, individual retirement accounts or tax deferred accounts;
- partnerships or other pass-through entities (including entities treated as partnerships for U.S. federal income tax purposes) or persons holding ADSs through any such entities;
- persons that hold ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons who are U.S. expatriates;
- persons liable for alternative minimum tax; or

- persons who directly, indirectly or constructively own 10% or more by vote or value of our Company's shares including ADSs.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which is referred to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on the assumptions regarding the value of our Company's shares and the nature of our business over time. Finally, this discussion is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For U.S. federal income tax purposes, as a holder of ADSs, you are treated as the owner of the underlying ordinary shares represented by such ADSs.

***The discussions and comments included herein are only a general description of the tax aspects and they do not constitute a tax advice or opinion. Therefore, you should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of our Company's ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.***

For purposes of the U.S. federal income tax discussion below, you are a "U.S. Holder" if you beneficially own ADSs and are:

- a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

## **U.S. Holders**

### ***Dividends on ADSs***

Subject to the Passive Foreign Investment Company ("PFIC") discussion below, if our Company makes distributions and you are a U.S. Holder, the gross amount of any distributions you receive on your ADSs (without reduction for any non-U.S. tax withheld from such distribution) will generally be treated as dividend income if the distributions are made from our Company's current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Dividends will generally be subject to U.S. federal income tax as ordinary income on the day you actually or constructively receive such income. However, if you are an individual and have held your ADSs for a sufficient period of time, dividend distributions on our Company's ADSs will generally constitute qualified dividend income taxed at a preferential rate as long as our Company is not treated as a PFIC, our Company's ADSs continue to be readily tradable on the New York Stock Exchange and certain conditions apply. You should consult your own tax adviser as to the rate of tax that will apply to you with respect to dividend distributions, if any, you receive from us.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADSs and thereafter as capital gain. However, our Company does not intend to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, so each U.S. Holder should therefore assume that any distribution by our Company with respect to the ADSs will constitute dividend income. If you are a corporation, you will not be entitled to claim a dividends-received deduction with respect to distributions you receive from our Company. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit limitation purposes. You should consult your own tax advisor to determine the foreign tax credit implications of owning ADSs.

### ***Sales and other dispositions of ADSs***

Subject to the PFIC discussion below, when you sell or otherwise dispose of our Company's ADSs, you will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADSs, both as determined in U.S. dollars. Your adjusted tax basis will generally equal the amount you paid for the ADSs. Any gain or loss you recognize is long-term capital gain or loss if your holding period in our Company's ADSs is more than one year at the time of disposition. If you are an individual, any such long-term capital gain is eligible for preferential rates. Your ability to deduct capital losses is subject to various limitations.

### ***Passive Foreign Investment Company***

If our Company is currently or were to become a PFIC, as a U.S. Holder, you would generally be subject to adverse U.S. tax consequences, in the form of increased tax liabilities and special U.S. tax reporting requirements.

Our Company will be classified as a PFIC in any taxable year if either: (1) the average value during the taxable year of our assets that produce passive income, or are held for the production of passive income, is at least 50% of the average value of our total assets for such taxable year (the "Asset Test"); or (2) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties) (the "Income Test"). For purposes of the Asset Test: (1) any cash, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits that is readily convertible into cash, will generally count as producing passive income or as being held for the production of passive income; and (2) the average values of our Company's passive and total assets is calculated based on our market capitalization. In the case of publicly traded corporations, fair market value must be used for purposes of applying the Asset Test. In addition, regarding the above two tests, there are complex look-through rules to consider with respect to the assets and activities of related corporations from which our Company either receives income or in which it holds an interest. More specifically, certain adjustments are made to exclude certain income received from a related party or to include income earned and assets held by a 25% or more owned subsidiary in determining whether our Company qualifies as a PFIC under the two tests.

Our Company believes that we were not a PFIC for the taxable year 2020. However, there is no assurance that the IRS will not take a contrary position and assert that we are a PFIC, and no assurances can be given that we will not become a PFIC at some point in the future. For example, our Company would be a PFIC for the taxable year 2021 if the sum of our average market capitalization, which is our share price multiplied by the total amount of our outstanding shares, and our liabilities over that taxable year is not more than twice the value of our cash, cash equivalents, and other assets that are readily converted into cash. U.S. Holders are urged to consult their tax advisors regarding the effects of the PFIC rules.

If our Company were a PFIC, you would generally be subject to additional taxes and interest charges on certain "excess distributions" our Company makes regardless of whether our Company continues to be a PFIC in the year in which you receive an "excess distribution". An "excess distribution" would be either (1) the excess amount of a distribution with respect to ADSs during a taxable year in which distributions to you exceed 125% of the average annual distributions to you over the preceding three taxable years or, if shorter, your holding period for the ADSs, or (2) 100% of the gain from the disposition of ADSs.

To compute the tax on "excess" distributions or any gain, (1) the "excess distribution" would be allocated ratably to each day in your holding period, (2) the amounts allocated to the current year and to any tax year before the first day on which our Company became a PFIC would be taxed as ordinary income in the current year, (3) the amount allocated to other taxable years would be taxable at the highest applicable marginal rate in effect for that year, and (4) an interest charge at the rate for underpayment of U.S. federal income tax for any period described under (3) above would be imposed with respect to any portion of the "excess" distribution that is allocated to such period. In addition, if our Company were a PFIC, no distribution that you receive from our Company would qualify for taxation at the preferential rate discussed in the "Dividends on ADSs" section above.

If our Company were a PFIC in any year, as a U.S. Holder, you would be required to make an annual return on IRS Form 8621 “Information Return by a Shareholder of a Passive Foreign Investment Company or a Qualified Electing Fund.” However, our Company does not intend to generate, or share with you, information that you might need to properly complete IRS Form 8621. You should consult with your own tax adviser regarding reporting requirements with regard to your ADSs.

If our Company were a PFIC in any year, you would generally be able to avoid the “excess” distribution rules described above by making a timely so-called “mark-to-market” election with respect to your ADSs provided our Company’s ADSs are “marketable”. Our Company’s ADSs will be “marketable” as long as they remain regularly traded on a national securities exchange, such as the New York Stock Exchange. If you made this election as of the beginning of your holding period, you would generally recognize as ordinary income or ordinary loss the difference between the fair market value of your ADSs on the first day of any taxable year and their value on the last day of that taxable year. Any ordinary income resulting from this election would generally be taxed at ordinary income rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADSs would be adjusted to reflect any such income or loss. Any gains recognized on the sale or other disposition of the ADSs would be treated as ordinary income and any losses would be treated as ordinary losses (but only to the extent of the net amount of previously included income as a result of the mark-to-market election, if any), and thereafter as capital losses. You should consult with your own tax adviser regarding potential advantages and disadvantages to you of making a “mark-to-market” election with respect to your ADSs.

Separately, if our Company were a PFIC in any year, you would be able to avoid the “excess” distribution rules by making a timely election to treat us as a so-called “Qualified Electing Fund” or “QEF”. You would then generally be required to include in gross income for any taxable year (1) as ordinary income, your pro rata share of our Company’s ordinary earnings for the taxable year, and (2) as long-term capital gain, your pro rata share of our Company’s net capital gain for the taxable year. However, our Company does not intend to provide you with the information you would need to make or maintain a “QEF” election and you will, therefore, not be able to make or maintain such an election with respect to your ADSs.

If the Company is a PFIC in any taxable year during which a U.S. Holder owns an ADS, such U.S. Holder (i) may also suffer adverse tax consequences under the PFIC rules described above with respect to any other PFIC in which the Company has a direct or indirect equity interest and (ii) generally will be required to file annually a statement setting forth certain information with its U.S. federal income tax returns. Currently, the effects of a mark-to-market election on, and the application of such an election to, lower-tier PFICs are not clear.

#### ***Medicare Tax***

In addition to regular U.S. federal income tax, certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their “net investment income,” which may include all or a portion of their income arising from a distribution with respect to an ADS and net gain from the sale, exchange or other disposition of an ADS.

#### **Disclosure Requirements for Specified Foreign Financial Assets**

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury regulations) who, during any taxable year, hold any interest in any “specified foreign financial asset” generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. “Specified foreign financial asset” generally includes any financial account maintained with a non-U.S. financial institution and may also include an ADS if it is not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

### **Information Reporting and Backup Withholding**

Under certain circumstances, information reporting and/or backup withholding may apply to U.S. Holders with respect to payments made on or proceeds from the sale, exchange or other disposition of an ADS, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

HOLDERS OF OUR COMPANY'S ADSS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF THE ADSS, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION AND INCLUDING ESTATE, GIFT, AND INHERITANCE LAWS.

### **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **G. STATEMENT BY EXPERTS**

Not applicable.

### **H. DOCUMENTS ON DISPLAY**

Our Company has filed this Annual Report on Form 20-F with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Statements made in this Annual Report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this Annual Report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

Our Company is subject to the informational requirements of the Exchange Act and file reports and other information with the Securities and Exchange Commission. Reports and other information which our Company filed with the Securities and Exchange Commission, including this Annual Report on Form 20-F, may be inspected and copied at the public reference room of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549.

You can also obtain copies of this Annual Report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the Securities and Exchange Commission's Internet site at <http://www.sec.gov>. The Commission's telephone number is 1-800-SEC-0330. Copies of this material may also be obtained for our Company's website at <http://www.csair.com>.

### **I. SUBSIDIARY INFORMATION**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Fuel Price Fluctuation Risk

Our earnings are affected by changes in the price and availability of jet fuel. There are currently no effective means available to manage our exposure to the fluctuations in jet fuel prices. Our results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for our Group. A reasonable possible increase or decrease of 10% in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased or decreased the fuel costs by approximately RMB1,880 million. The sensitivity analysis of jet fuel price risk is disclosed in Note 4(e) to the consolidated financial statements.

### Interest Rate Risk

We are subject to market risks due to fluctuations in interest rates. The majority of our borrowings and lease liabilities are in the form of long-term fixed-rate and variable-rate. Fluctuations in interest rates can lead to significant fluctuations in the fair value of such debt instruments.

Interest rate swaps, denominated in United States Dollars (“USD”), have been entered into to mitigate our cash flow interest rate risk. The interest rate swaps allow our Company to pay at fixed rate from 1.64% to 1.72% to receive LIBOR. The notional principal of the outstanding interest rate swap contracts as at December 31, 2020 amounted to USD258 million (December 31, 2019: USD325 million), and the fair value of the interest rate swaps was RMB53 million recognized in liabilities as of December 31, 2020 (December 31, 2019: RMB3 million recognized in assets).

Cross currency swaps have been entered into mitigate interest rate risk and foreign currency risk. The cross currency swaps allow our Company to exchange the floating interest rate and principal payments in USD for fixed interest rate from 3.39% to 3.67% and principal payments in Renminbi. At 31 December 2019, the fair value of the cross currency swaps amounted to RMB187 million was recognized in assets. The notional principal of the outstanding cross currency swaps as at 31 December 2019 amounted to USD620 million. As at 31 December 2020, all cross currency swaps had been settled.

The sensitivity analysis of interest rate risk is disclosed in Note 4(b) to the consolidated financial statements.

The following table provides information regarding our other financial instruments (excluding lease contracts in accordance with Item 305 of Regulation S-K) that are sensitive to changes in interest rate as of December 31, 2020 and 2019:

	As of December 31, 2020 Expected Maturity Date (RMB Equivalent in million)						As of December 31, 2019 (RMB Equivalent in million)			
	2021	2022	2023	2024	2025	Thereafter	Total recorded amount	Fair Value(2)	Total Recorded amount	Fair Value(2)
<b>Bank and other loans</b>										
Fixed rate bank and other loans in US\$	—	—	—	—	—	—	—	—	32	32
Average interest rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.42%	
Variable rate bank and other loans in US\$	—	—	—	—	—	—	—	—	4,325	4,325
Average interest rate <sup>(1)</sup>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.42%	
Fixed rate bank and other loans in RMB	38,578	7,662	12,807	553	1,034	15,228	75,862	75,862	42,989	42,989
Average interest rate	2.15%	3.52%	2.72%	2.73%	3.28%	6.02%	3.18%		2.96%	
Variable rate bank and other loans in RMB	1,521	—	—	—	—	850	2,371	2,371	3,834	3,834
Average interest rate <sup>(1)</sup>	3.01%	N/A	N/A	N/A	N/A	4.41%	3.51%		4.06%	

(1) Variable interest rates are calculated based on the year end indices.

(2) Fair value of debt instruments was estimated based on the interest rates applicable to similar debt instruments as of December 31, 2020 and 2019.



## Foreign Currency Exchange Risk

We are also exposed to foreign currency risk as a result of our aircraft and flight equipment being sourced from overseas suppliers. Specifically, our foreign currency exposure relates primarily to our foreign currency lease liabilities and long-term bank and other loans used to finance such capital expenditures and our capital commitments. Subject to certain restrictive conditions imposed by the SAFE, we may, from time to time, enter into foreign exchange forward option contracts to mitigate our foreign currency exposures. The sensitivity analysis of foreign currency risk is disclosed in Note 4(c) to the consolidated Financial Statements.

In 2020, we entered into forward foreign exchange and foreign exchange options contracts to mitigate foreign currency exchange risk. As of December 31, 2020, the notional principal of the outstanding forward foreign exchange and foreign exchange options contracts amounted to USD400 million (December 31, 2019: USD1,035 million), and the fair value of the forward foreign exchange and foreign exchange options contracts amounted to RMB56 million was recognized in liabilities (December 31, 2019: RMB31 million was recognized in assets).

As of December 31, 2020, we operated a total of 571 aircraft under leases. Certain of the leases are at rates that are substantially fixed. Such leases expose us to market risks. However, in accordance with Item 305 of Regulation S-K, such leases have been excluded from the following market risk tables.

The following table provides information regarding our material foreign currency sensitive financial instruments and capital commitments as of December 31, 2020 and 2019:

	As of December 31, 2020						As of December 31, 2019			
	Expected Maturity Date or Transaction Date (RMB Equivalent in million)						(RMB Equivalent in million)			
	2021	2022	2023	2024	2025	Thereafter	Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
Variable rate bank and other loans in US\$	—	—	—	—	—	—	—	—	4,325	4,325
Capital commitment in US\$	28,382	15,033	11,910	1,222	—	—	56,547	56,547	71,224	71,224

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

For description of the rights of each class of securities that is registered under Section 12 of the Exchange Act as of December 31, 2020, please refer to Exhibit 2.3 of this Annual Report.

### A. DEBT SECURITIES

None

### B. WARRANTS AND RIGHTS

None

## C. OTHER SECURITIES

None

## D. AMERICAN DEPOSITARY SHARES

The Bank of New York Mellon collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Bank of New York Mellon collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Bank of New York Mellon may collect its annual fee for depositary services by deductions from cash distributions, by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The Bank of New York Mellon may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

\$.02 (or less) per ADSs per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

**For:**

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS registered holders
- Distribution of securities to holders of deposited securities which are distributed by the depositary to ADS registered holders
- Depositary services
  
- Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars
  
- As necessary
  
- As necessary

**Fees and Payments from the Depositary to Us**

In 2020, we received from the depositary a reimbursement of US\$43,601.14 net of withholding tax, for continuing annual stock exchange listing fees and expenses incurred by our Company in connection with the administration and maintenance of the depositary receipt facility.

**Indirect payments**

As part of the service to our Company, the Bank of New York Mellon waived a total amount of US\$115,438.08 for the standard costs associated with the administration of the ADS program in 2020.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**A. MATERIAL MODIFICATIONS TO THE INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS**

None.

**B. MATERIAL MODIFICATIONS TO THE RIGHTS OF REGISTERED SECURITIES BY ISSUING OR MODIFYING ANY OTHER CLASS OF SECURITIES**

None.

**C. WITHDRAWAL OR SUBSTITUTION OF A MATERIAL AMOUNT OF THE ASSETS SECURING ANY REGISTERED SECURITIES**

Not applicable.

**D. CHANGE OF TRUSTEES OR PAYING AGENTS FOR ANY REGISTERED SECURITIES**

Not applicable.

**E. USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure controls and procedures**

Our President and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) or 15d-15(e)), and concluded that, based on their evaluation, our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### **Management's annual report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements. Our management has assessed the effectiveness of internal control over financial reporting based on the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

KPMG Huazhen LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report, and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

### **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors  
China Southern Airlines Company Limited:

#### *Opinion on Internal Control Over Financial Reporting*

We have audited China Southern Airlines Company Limited and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2020 and 2019, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated April 28, 2021 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Huazhen LLP

Beijing, China  
April 28, 2021

### **Changes in internal control over financial reporting**

During the year ended December 31, 2020, there has been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16A. AUDIT AND RISK MANAGEMENT COMMITTEE FINANCIAL EXPERT**

Our Board has determined that Mr. Tan Jinsong qualifies as an audit and risk management committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Tan Jinsong satisfies as an "independent director" within the meaning of NYSE Manual Section 303A and meets the criteria for independence set forth in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10A-3 under the Exchange Act. See "Item 6. Directors, Senior Management and Employees".

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The code of ethics is filed as Exhibit 11.1 to this Annual Report, and a copy of which will be provided to any person free of charge upon written request to Xie Bing, Company Secretary, China Southern Airlines Company Limited at 68 Qi Xin Road, Guangzhou 510403, the People's Republic of China.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

KPMG Huazhen LLP, an independent registered public accounting firm, served as our principal accountant for the fiscal years ended December 31, 2019 and 2020. The following table sets forth the aggregate audit fees, audit-related fees, tax fees and other fees of our principal accountants for each of the fiscal years of 2019 and 2020:

	<u>Audit Fees</u>	<u>Audit-Related Fees</u> RMB (in million)	<u>Tax Fees</u>	<u>Other Fees</u>
2019	18.7	—	1.5	—
2020	17.3	0.8	1.4	—

Audit fees include the aggregate fees in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements or services that are normally provided by the auditors in connection with and regulatory filing or engagements.

Audit-related fees represent the fees relating to capital verification services.

Tax fees consisted of fees for tax consultation and tax compliance services.

Our audit and risk management committee pre-approved all audit and non-audit services performed by our principal accountant for the fiscal years ended December 31, 2019 and 2020.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT AND RISK MANAGEMENT COMMITTEE**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Set out below is a summary of any significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange ("NYSE"):

*Director Independence*

A listed company must have a majority of independent directors on its board of directors. No director qualifies as “independent” unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

*Executive Sessions*

The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Under the Hong Kong Listing Rules, independence is more likely to be questioned under certain circumstances, such as if the director has specified interests in the issued shares or business of the listed company, or relationship with a director, chief executive or a substantial shareholder of the listed company, or is financially dependent on the listed company. The Hong Kong Listing Rules require that each independent non-executive director must provide an annual confirmation of his independence to the listed company.

The Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules requires that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

It is required in China that any listed company must establish an independent director system and set forth specific requirements for the qualification of independent directors. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship.

Our Company has complied with the relevant Chinese corporate governance rules and the relevant requirements of the Hong Kong Listing Rules, and has implemented internal rules governing the independence and responsibilities of independent directors. Our Company assesses the independence of independent directors every year.

A meeting was held on August 28, 2020 by the chairman of our board with independent non-executive directors and without the presence of other directors.

*Nominating/Corporate Governance Committee*

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.

The nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management, and evaluate the performance of the committee every year.

*Compensation Committee*

Listed companies must have a compensation committee composed entirely of independent directors.

The Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules requires that, a listed company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. The primary duties of the nomination committee include: (a) review the structure, size and composition of the board at least annually and make recommendations on any proposed changes to the board; (b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; (c) assess the independence of independent non-executive directors; and (d) make recommendations to the board on the appointment or reappointment of directors and succession planning for directors.

The Hong Kong Listing Rules requires that a listed company must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors.

Our Company has established a Nomination Committee. As of December 31, 2020, the Nomination Committee consisted of two members, including Mr. Zheng Fan (independent non-executive director) as chairman and Mr. Jiao Shuge (independent non-executive director) as a member. The responsibilities of the Nomination Committee are to make recommendations to the Board in respect of the size and composition of the Board based on the operational activities, assets and shareholding structure of the company; study the selection criteria and procedures of directors and management and give advice to the Board by consideration of the board diversity policy; identify qualified candidates for directors and management; investigate and propose candidates for directors and management and other senior management members to the Board.

Our Company has established a Remuneration and Assessment Committee consisting of three members. As of December 31, 2020, the Remuneration and Assessment Committee consisted of three members and was chaired by Mr. Gu Huizhong (independent non-executive director), together with Mr. Han Wensheng (executive director) and Mr. Zheng Fan (independent non-executive director) as members.



**NYSE corporate governance rules****Hong Kong corporate governance rules****Our Company's governance practices**

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

- (1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;
- (3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

*Audit and risk management committee*

Listed companies must have an audit and risk management committee that satisfies the requirements of Rule 10A-3 of Exchange Act. It must have a minimum of three members, and all audit and risk management committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

The charter must also include the requirement for an annual performance evaluation of the compensation committee.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The responsibilities of our Remuneration and Assessment Committee are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The responsibilities of the Remuneration and Assessment Committee are to approve the remuneration packages of directors and senior management of our Group, and our Company's "preliminary proposals on annual emoluments of the directors and senior management of our Group". The Remuneration and Assessment Committee is also responsible for assessing performance of executive director and approving the terms of executive directors' service contracts.

Our Company has established an Audit and Risk Management Committee that satisfies relevant domestic requirements and the Audit and Risk Management Committee has a written charter. As of December 31, 2020, the Audit and Risk Management Committee consisted of three members and was chaired by Mr. Tan Jin Song, with Mr. Gu Hui Zhong and Mr. Jiao Shu Ge as the members.

The responsibilities of the Audit and Risk Management Committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, our Company is not required to make an annual performance evaluation of the Audit and Risk Management Committee and the Audit and Risk Management Committee is not required to prepare an audit report to be included in our Company's annual proxy statement.

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**NYSE corporate governance rules**

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**Hong Kong corporate governance rules**

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**Our Company's governance practices**

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The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

*Shareholder Approval of Equity Compensation Plans*

Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.

There are no similar requirements under the Hong Kong Listing Rules.

The relevant regulations of China require our Board to propose plans and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers is subject to approval by our Board and disclosed to the public upon the approval of our Board. The approval of director compensation and compensation plan of executive officers of our Company satisfies relevant domestic requirements.

*Corporate Governance Guidelines*

Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director responsibilities, director access to management and, as necessary and appropriate, independent advisors, director compensation, director orientation continuing education, management succession and annual performance evaluation of the board of directors, etc.

Under the Hong Kong Listing Rules, we are expected to comply with, but may choose to deviate from, the provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, which sets out the principles of good corporate governance for listed companies. However, we are required to disclose the reasons for deviation, if any, in our interim and annual reports.

Our Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, except that Mr. Ma Xulun currently serves as the Chairman and the President, which deviates from provision A.2.1 of the Corporate Governance Code, requiring that the roles of the Chairman and the President should be separate and should not be performed by the same individual. Nevertheless, having considered that (i) the co-performance of the duties of the Chairman and the President is a temporary arrangement pending election and appointment of a candidate to fill vacancy of the President position; and (ii) the Board meets regularly and whenever needed to consider matters relating to business operations of our Group, the Board is of the view that this temporary arrangement will not impair the balance of power and authority of the Board and the management of the Company. The effectiveness of corporate planning and implementation of corporate strategies and decisions will not be affected.

We also complied with the Corporate Governance Rules issued by CSRC.

**NYSE corporate governance rules**

**Hong Kong corporate governance rules**

**Our Company's governance practices**

*Certification Requirements*

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any material non-compliance with any applicable provisions of Section 303A.

Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation as and when required by the interim Written Affirmation form specified by the NYSE.

There are no similar requirements under the Hong Kong Listing Rules.

There are no similar requirements under the domestic corporate governance rules in China.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**ITEM 18. FINANCIAL STATEMENTS**

See F-pages following Item 19.

**ITEM 19. EXHIBITS**

## Index to Exhibits

Exhibit No.	Description of Exhibit
1.1	<u>Restated and Amended Articles of Association of China Southern Airlines Company Limited (as amended) (English translation)</u>
2.1	<u>Specimen Certificate for the H Shares (1)</u>
2.2	<u>Form of Deposit Agreement among the Registrant, The Bank of New York, as depository, and Owners and Beneficial Owners from time to time of American Depository Shares evidenced by American Depository Receipt issued thereunder, including the form of American Depository Receipt (2)</u>
2.3	<u>Description of registrant's securities</u>
4.1	<u>Form of Director's Service Agreement (3)</u>
4.2	<u>Form of Non-executive Director's Service Agreement (4)</u>
4.3	<u>Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on August 8, 2012*(5)</u>
4.4	<u>Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on December 17, 2015*(6)</u>
4.5	<u>Aircraft Acquisition Agreement entered into by and between our Company and Boeing on December 17, 2015*(7)</u>
4.6	<u>Aircraft Acquisition Agreement entered into by and between our Company and Boeing on December 17, 2015*(8)</u>
4.7	<u>Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S. on December 23, 2015*(9)</u>
4.8	<u>Import and Export Agency Framework Agreement entered into by and between our Company and Southern Airlines (Group) Import and Export Trading Company Limited on January 9, 2014(10)</u>
4.9	<u>Trademark License Agreement entered into by and between our Company and CSAH on May 22, 1997 (11)</u>
4.10	<u>A Share subscription agreement entered into by and between our Company and CSAH on June 11, 2012(12)</u>
4.11	<u>Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S. on May 16, 2014*(13)</u>
4.12	<u>English translation of Financial Services Framework Agreement entered into by and between our Company and Southern Airlines Group Finance Company Limited on August 29, 2016(14)</u>
4.13	<u>English translation of Insurance Business Platform Services Agreement entered into by and between our Company and Southern Airlines Group Finance Company Limited on November 19, 2015(15)</u>
4.14	<u>English translation of Property and Land Lease Framework Agreement entered into by and between our Company and CSAH on December 16, 2016(16)</u>

- 4.15 [English translation of Passenger and Cargo Sales and Ground Services Framework Agreement entered into by and between our Company and China Southern Air Holding Ground Services Company Limited on December 16, 2016\(17\)](#)
- 4.16 [Supplemental Agreement No. 3 to Purchase Agreement No. 03586 Relating to Boeing Model 787 Aircraft entered into by and between Xiamen Airlines and Boeing on July 27, 2016\\*\(18\)](#)
- 4.17 [Supplemental Agreement No. 4 to Purchase Agreement No. 03586 Relating to Boeing Model 787 Aircraft entered into by and between Xiamen Airlines and Boeing on July 27, 2016\\*\(19\)](#)
- 4.18 [Supplemental Agreement No. 3 to Purchase Agreement No. 03757 Relating to Boeing Model 737-800 Aircraft entered into by and between Xiamen Airlines and Boeing on April 26, 2016\\*\(20\)](#)
- 4.19 [Purchase Agreement No. GUN-PA-04455 Relating to Boeing Model 787-9 Aircraft entered into by and between our Company and Boeing on October 12, 2016\\*\(21\)](#)
- 4.20 [Airbus Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S on April 26, 2017\\* \(22\)](#)
- 4.21 [English translation of Aircraft Finance Lease Framework Agreement entered into by and between our Company and CSA International on May 26, 2017 \(23\)](#)
- 4.22 [English translation of 2018-2019 Finance and Lease Service Framework Agreement entered into by and between our Company and CSA International on October 17, 2017 \(24\)](#)
- 4.23 [Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017\\* \(25\)](#)
- 4.24 [Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017\\* \(26\)](#)
- 4.25 [Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on March 21, 2018\\* \(27\)](#)
- 4.26 [English translation of CSA Building Asset Lease Agreement entered into by and between our Company and GSAC on January 19, 2018 \(28\)](#)
- 4.27 [English translation of Supplemental Agreement to the Financial Services Framework Agreement entered into by and between our Company and SA Finance on April 27, 2018 \(29\)](#)
- 4.28 [English translation of Sale and Purchase Agreement entered into by and between our Company and Zhuhai China Southern Air Real Property Development Co., Ltd. on December 24, 2018 \(30\)](#)
- 4.29 [English translation of Media Services Framework Agreement entered into by and between our Company and SACM on December 27, 2018 \(31\)](#)
- 4.30 [English translation of Catering Services Framework Agreement entered into by and between our Company and SACC on December 27, 2018 \(32\)](#)
- 4.31 [Form of Senior Management Services Agreement \(33\)](#)
- 4.32 [English translation of Capital Increase agreement entered into by and between our Company, CSAH, Xiamen Airlines, Shantou Airlines, Zhuhai Airlines and Nanland on March 1, 2019 \(34\)](#)
- 4.33 [English translation of Entrusted Loan Agreement entered into by and between our Company, CSAH and SA Finance on July 8, 2019 \(35\)](#)
- 4.34 [English translation of Financial Services Framework Agreement entered into by and between our Company and SA Finance on August 27, 2019\(36\)](#)

- 4.35 [English translation of Framework Agreement on the Use of Facility entered into by and between our Company and Sichuan Airline on August 30, 2019\(37\)](#)
- 4.36 [English translation of Entrusted Loan Agreement entered into by and between our Company, CSAH and SA Finance on September 3, 2019 \(38\)](#)
- 4.37 [English translation of 2020-2022 Finance and Lease Service Framework Agreement entered into by and between our Company and CSA International on October 10, 2019\(39\)](#)
- 4.38 [English translation of Subscription Agreement entered into by and between our Company and CSAH on October 30, 2019\(40\)](#)
- 4.39 [English translation of Subscription Agreement entered into by and between our Company and Nan Lung on October 30, 2019\(41\)](#)
- 4.40 [English translation of Supplemental Agreement to Media Services Framework Agreement entered into by and between our Company and SACM on November 29, 2019\(42\)](#)
- 4.41 [English translation of Property and Land Lease Framework Agreement entered into by and between our Company and CSAH on December 30, 2019\(43\)](#)
- 4.42 [English translation of Property Management Framework Agreement entered into by and between our Company and China Southern Airlines Group Property Management Co., Ltd. on December 21, 2020](#)
- 4.43 [English translation of Asset Lease Framework Agreement entered into by and between our Company and CSAH on December 21, 2020](#)
- 4.44 [English translation of Capital Increase and Equity Transfer Agreement entered into by and between Southern Airlines General Aviation Co., Ltd., our Company, China Southern Power Grid Industry Investment Group Co., Ltd., Guoxin Shuangbai No. 1 \(Hangzhou\) Equity Investment Partnership \(Limited Partnership\), China Southern Airlines Group Capital Holding Limited and Zhuhai General Aviation Investment Partnership \(Limited Partnership\) on November 25, 2020](#)
- 8.1 [Subsidiaries of China Southern Airlines Company Limited](#)
- 11.1 [Code of Ethics \(44\)](#)
- 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](#)
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- \* 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 2.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.
  - (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-071116), filed with the Securities and Exchange Commission on August 7, 2012.
  - (3) 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.
  - (4) 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.
  - (5) Incorporated by reference to the Exhibit 4.4 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.
  - (6) Incorporated by reference to the Exhibit 4.6 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2015 filed with the Securities and Exchange Commission on April 28, 2016.
  - (7) Incorporated by reference to the Exhibit 4.7 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2015 filed with the Securities and Exchange Commission on April 28, 2016.
  - (8) Incorporated by reference to the Exhibit 4.8 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2015 filed with the Securities and Exchange Commission on April 28, 2016.
  - (9) Incorporated by reference to the Exhibit 4.9 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2015 filed with the Securities and Exchange Commission on April 28, 2016.
  - (10) Incorporated by reference to the Exhibit 4.11 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2013 filed with the Securities and Exchange Commission on April 25, 2014.
  - (11) Incorporated by reference to the Exhibit 4.10 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.
  - (12) Incorporated by reference to the Exhibit 4.11 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.
  - (13) Incorporated by reference to the Exhibit 4.23 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2014 filed with the Securities and Exchange Commission on April 30, 2015.
  - (14) Incorporated by reference to the Exhibit 4.35 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (15) Incorporated by reference to the Exhibit 4.36 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (16) Incorporated by reference to the Exhibit 4.37 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (17) Incorporated by reference to the Exhibit 4.38 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (18) Incorporated by reference to the Exhibit 4.39 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (19) Incorporated by reference to the Exhibit 4.40 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (20) Incorporated by reference to the Exhibit 4.41 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (21) Incorporated by reference to the Exhibit 4.42 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
  - (22) Incorporated by reference to the Exhibit 4.43 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
  - (23) Incorporated by reference to the Exhibit 4.44 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
  - (24) Incorporated by reference to the Exhibit 4.45 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
  - (25) Incorporated by reference to the Exhibit 4.46 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.





## 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/ Ma Xulun

Name: Ma Xulun

Title: Chairman of the Board and President

Date: April 28, 2021

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
China Southern Airlines Company Limited:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial position of China Southern Airlines Company Limited and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 28, 2021 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Assessment of value in use of aircraft and related equipment*

As discussed in Note 19(a) to the consolidated financial statements, the Company reported aircraft and related equipment in the amount of RMB208,943 million as of December 31, 2020. The Company recognized RMB3,959 million of impairment loss on aircraft and related equipment for the year ended December 31, 2020. As discussed in Note 2(1)(iii), at the end of each reporting period, if any indication of impairment exists, the Company estimates the recoverable amount of an asset, or a cash-generating unit, at the higher of its fair value less costs of disposal and its value in use, to determine the impairment losses. The Company's estimated value in use includes assumptions on traffic revenue growth rates, related operating costs growth rates ("forecasted growth rates") and discount rates.

We identified the assessment of value in use of aircraft and related equipment as a critical audit matter. The estimate of value in use of aircraft and related equipment involved a high degree of subjectivity and auditor judgment to evaluate the Company's assumptions on the forecasted growth rates and discount rates. The forecasted growth rates and the discount rates used to estimate value in use for impairment of aircraft and related equipment are challenging to test as minor changes to those assumptions would have a significant effect on the Company's impairment assessment of aircraft and related equipment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process in assessing the value in use of aircraft and related equipment. This includes controls related to the development of forecasted growth rates and discount rates used in determining the value in use of aircraft and related equipment. We assessed the reasonableness of the Company's forecasted growth rates based on the Company's future operation plans. We assessed the forecasted growth rates assumptions adopted in the Company's value in use assessment by comparing them with internally and externally derived data. We evaluated the Company's ability to accurately forecast by comparing the Company's historical forecasted growth rates to the actual results. We performed sensitivity analysis over the forecasted growth rates and the discount rates assumptions to assess their impact on the Company's impairment assessment. In addition, we involved our valuation professionals with specialized skills and knowledge, who assisted in evaluating the discount rates used by comparing them against discount rates that were independently developed using publicly available industry data.

#### *Assessment of the standalone selling price for mileage awarded*

As discussed in Note 38 to the consolidated financial statements, the Company's contract liabilities relating to unredeemed mileage awarded was RMB3,196 million as of December 31, 2020. For the year ended December 31, 2020, the revenue recognized in relation to mileage awarded was RMB1,405 million. As discussed in Note 2(z)(ii), the Company allocates the transaction price in relation to mileage earning flights between the flight and mileage awarded on relative standalone selling prices. The Company estimates the standalone selling price of mileage awarded through mileage earning flights based on inputs and assumptions derived from historical data, including the estimates on the percentage of mileage awarded that are expected to be redeemed ("expected redemption rates"). The mileage awarded is recognized in contract liabilities, and subsequently recognized as revenue when the mileage is redeemed and the related benefits are received or used.

We identified assessment of the standalone selling price for mileage awarded as a critical audit matter because of the high degree of subjective auditor judgment required to evaluate the assumptions involved in such assessment, in particular the expected redemption rates which take into consideration expected future mileage redemption patterns.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process to estimate the standalone selling price for mileage awarded. This included controls related to key assumptions utilized in the estimation of the standalone selling price for mileage awarded. We evaluated the Company's methodology in developing the standalone selling price for mileage awarded and compared the assumptions underlying the expected redemption rates with those of historical periods. We compared the Company's estimate of the standalone selling price of mileage awarded to the contractual rates at which mileages are sold to other airlines and bank partners. We compared the expected redemption rates to historical experience of mileage redemption. We assessed the impact of changes in the terms of mileage programs and customer behavior on expected redemption rates. We assessed the Company's ability to accurately forecast by comparing the historical estimate of mileage redemption to actual redemption of mileages. We also performed sensitivity analysis over the expected redemption rates to assess its impact on the associated revenue for mileage awarded.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Beijing, China  
April 28, 2021

**CONSOLIDATED INCOME STATEMENTS**

For the years ended December 31, 2020, 2019 and 2018

	Note	2020 RMB million	2019 RMB million	2018 RMB million (Note)
<b>Operating revenue</b>	5			
Traffic revenue		87,027	148,117	138,064
Other operating revenue		5,534	6,205	5,559
<b>Total operating revenue</b>		92,561	154,322	143,623
<b>Operating expenses</b>				
Flight operation expenses	7	37,545	70,566	76,216
Maintenance expenses	8	13,375	13,057	12,704
Aircraft and transportation service expenses	9	18,743	26,591	24,379
Promotion and selling expenses	10	5,007	7,755	7,036
General and administrative expenses	11	4,088	4,073	3,770
Depreciation and amortization	12	24,590	24,620	14,308
Impairment losses on property, plant and equipment and right-of-use assets	19/21	3,961	18	—
Others		1,802	1,928	1,829
<b>Total operating expenses</b>		109,111	148,608	140,242
<b>Other net income</b>	14	4,686	5,124	5,438
<b>Operating (loss)/profit</b>		(11,864)	10,838	8,819
Interest income		322	74	125
Interest expense	15	(6,716)	(5,845)	(3,202)
Share of associates' results	24	(776)	(178)	263
Share of joint ventures' results	25	309	365	200
Exchange gain/(loss), net	36	3,485	(1,477)	(1,853)
Loss on disposal of a subsidiary	23(v)	(8)	—	—
Changes in fair value of financial assets / liabilities	28	53	265	12
Remeasurement of the originally held equity interests in a joint venture		—	13	—
<b>(Loss)/profit before income tax</b>		(15,195)	4,055	4,364
Income tax	16	3,368	(971)	(1,000)
<b>(Loss)/profit for the year</b>		(11,827)	3,084	3,364
<b>(Loss)/profit attributable to:</b>				
Equity shareholders of the Company	18	(10,847)	2,640	2,895
Non-controlling interests		(980)	444	469
<b>(Loss)/profit for the year</b>		(11,827)	3,084	3,364
<b>(Loss)/earnings per share</b>				
Basic and diluted	18	RMB(0.77)	RMB0.22	RMB0.27

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended December 31, 2020, 2019 and 2018**

	Note	2020 RMB million	2019 RMB million	2018 RMB million (Note)
(Loss)/profit for the year		<u>(11,827)</u>	<u>3,084</u>	<u>3,364</u>
<b>Other comprehensive income:</b>	17			
Items that will not be reclassified to profit or loss				
- Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		(250)	(31)	319
- Share of other comprehensive income of an associate		(2)	3	(4)
- Income tax effect of the above items		63	7	(80)
Items that may be reclassified subsequently to profit or loss				
- Cash flow hedge: fair value movement of derivative financial assets/ liabilities		(45)	(72)	29
- Differences resulting from the translation of foreign currency financial statements		8	(7)	(2)
- Share of other comprehensive income of an associate		(3)	—	—
- Income tax effect of the above items		11	17	(7)
<b>Other comprehensive income for the year</b>		<u>(218)</u>	<u>(83)</u>	<u>255</u>
<b>Total comprehensive income for the year</b>		<u>(12,045)</u>	<u>3,001</u>	<u>3,619</u>
<b>Total comprehensive income for the year attributable to:</b>				
Equity shareholders of the Company		(11,011)	2,552	3,048
Non-controlling interests		<u>(1,034)</u>	<u>449</u>	<u>571</u>
<b>Total comprehensive income for the year</b>		<u>(12,045)</u>	<u>3,001</u>	<u>3,619</u>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**At December 31, 2020 and 2019**

	Note	December 31 2020 RMB million	December 31 2019 RMB million
<b>Non-current assets</b>			
Property, plant and equipment, net	19	86,146	84,788
Construction in progress	20	32,407	39,222
Right-of-use assets	21	151,065	153,211
Goodwill	22	237	237
Interest in associates	24	2,449	3,322
Interest in joint ventures	25	3,225	3,124
Aircraft lease deposits		362	457
Other equity instrument investments	26	799	1,049
Other non-current financial assets	26	92	106
Derivative financial assets	27	—	3
Deferred tax assets	29(b)	7,739	2,692
Other assets	30	2,877	1,979
		<u>287,398</u>	<u>290,190</u>
<b>Current assets</b>			
Inventories	31	1,760	1,893
Trade receivables	32	2,525	3,152
Other receivables	33	8,347	7,860
Cash and cash equivalents	34	25,419	1,849
Restricted bank deposits		117	102
Prepaid expenses and other current assets		732	1,591
Derivative financial assets	27	—	218
Amounts due from related companies	41	85	73
		<u>38,985</u>	<u>16,738</u>
<b>Current liabilities</b>			
Derivative financial liabilities	27	3,148	—
Borrowings	35	40,099	37,543
Lease liabilities	36	20,930	19,998
Trade payables	37	1,782	2,317
Contract liabilities	38	1,513	1,610
Sales in advance of carriage	39	3,997	10,303
Current income tax		462	563
Amounts due to related companies	41	357	170
Accrued expenses	42	15,920	15,745
Other liabilities	43	7,473	7,241
		<u>95,681</u>	<u>95,490</u>

The accompanying notes form part of these financial statements.



**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

At December 31, 2020 and 2019

	Note	December 31 2020 RMB million	December 31 2019 RMB million
<b>Non-current liabilities</b>			
Borrowings	35	38,134	13,637
Lease liabilities	36	100,283	114,076
Derivative financial liabilities	27	53	—
Other non-current liabilities	40	2,036	1,782
Provision for major overhauls	44	4,216	3,542
Deferred benefits and gains	45	769	833
Deferred tax liabilities	29(b)	80	239
		<u>145,571</u>	<u>134,109</u>
<b>Net assets</b>		<u>85,131</u>	<u>77,329</u>
<b>Capital and reserves</b>			
Share capital	46	15,329	12,267
Reserves		<u>54,255</u>	<u>51,839</u>
<b>Total equity attributable to equity shareholders of the Company</b>		69,584	64,106
<b>Non-controlling interests</b>		<u>15,547</u>	<u>13,223</u>
<b>Total equity</b>		<u>85,131</u>	<u>77,329</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the years ended December 31, 2020, 2019 and 2018**

	Attributable to equity shareholders of the Company								
	Share capital (Note 46) RMB million	Share premium (Note 47(b)) RMB million	Fair value reserve (recycling) (Note 47(c)) RMB million	Fair value reserve (non-recycling) (Note 47(d)) RMB million	Other reserves (Note 47(e)) RMB million	Retained earnings (Note 47(e)) RMB million	Total	Non-controlling interests RMB million	Total equity RMB million
<b>Balance at January 1, 2018</b>	10,088	15,182	35	303	2,684	22,273	50,565	12,668	63,233
<b>Changes in equity for 2018:</b>									
Profit for the year	—	—	—	—	—	2,895	2,895	469	3,364
Other comprehensive income	—	—	22	133	(2)	—	153	102	255
Total comprehensive income	—	—	22	133	(2)	2,895	3,048	571	3,619
Appropriations to reserves	—	—	—	—	221	(221)	—	—	—
Dividends relating to 2017	—	—	—	—	—	(1,009)	(1,009)	—	(1,009)
Issuance of shares	2,179	10,470	—	—	—	—	12,649	—	12,649
Capital injection by non-controlling interests in subsidiaries	—	—	—	—	—	—	—	72	72
Changes in other reserves	—	—	—	—	4	—	4	—	4
Distributions to non-controlling interests	—	—	—	—	—	—	—	(99)	(99)
<b>Balance at December 31, 2018 (Note)</b>	<b>12,267</b>	<b>25,652</b>	<b>57</b>	<b>436</b>	<b>2,907</b>	<b>23,938</b>	<b>65,257</b>	<b>13,212</b>	<b>78,469</b>
Impact on initial application of IFRS 16 (Note 2(b))	—	—	—	—	(272)	(2,852)	(3,124)	(338)	(3,462)
<b>Adjusted balance at January 1, 2019</b>	<b>12,267</b>	<b>25,652</b>	<b>57</b>	<b>436</b>	<b>2,635</b>	<b>21,086</b>	<b>62,133</b>	<b>12,874</b>	<b>75,007</b>
<b>Changes in equity for 2019:</b>									
Profit for the year	—	—	—	—	—	2,640	2,640	444	3,084
Other comprehensive income	—	—	(55)	(27)	(6)	—	(88)	5	(83)
Total comprehensive income	—	—	(55)	(27)	(6)	2,640	2,552	449	3,001
Appropriations to reserves (Note 47(e))	—	—	—	—	181	(181)	—	—	—
Dividends relating to 2018	—	—	—	—	—	(613)	(613)	—	(613)
Distributions to non-controlling interests	—	—	—	—	—	—	—	(86)	(86)
Acquisition of non-controlling interests in a subsidiary	—	—	—	—	(10)	—	(10)	(14)	(24)
Change in other reserves	—	—	—	—	44	—	44	—	44
<b>Balance at December 31, 2019 and January 1, 2020</b>	<b>12,267</b>	<b>25,652</b>	<b>2</b>	<b>409</b>	<b>2,844</b>	<b>22,932</b>	<b>64,106</b>	<b>13,223</b>	<b>77,329</b>
<b>Changes in equity for 2020:</b>									
Loss for the year	—	—	—	—	—	(10,847)	(10,847)	(980)	(11,827)
Other comprehensive income	—	—	(37)	(135)	8	—	(164)	(54)	(218)
Total comprehensive income	—	—	(37)	(135)	8	(10,847)	(11,011)	(1,034)	(12,045)
Issuance of shares (Note 46(ii))	3,062	12,889	—	—	—	—	15,951	—	15,951
Acquisition of non-controlling interests in a subsidiary (Note 23(vi))	—	—	—	—	(155)	—	(155)	(105)	(260)
Capital injection from non-controlling interests	—	—	—	—	700	—	700	3,521	4,221
Distributions to non-controlling interests	—	—	—	—	—	—	—	(57)	(57)
Decrease in non-controlling interests as a result of loss of control of a subsidiary	—	—	—	—	—	—	—	(1)	(1)
Change in other reserves	—	—	—	—	(7)	—	(7)	—	(7)
<b>Balance at December 31, 2020</b>	<b>15,329</b>	<b>38,541</b>	<b>(35)</b>	<b>274</b>	<b>3,390</b>	<b>12,085</b>	<b>69,584</b>	<b>15,547</b>	<b>85,131</b>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENTS**  
**For the years ended December 31, 2020, 2019 and 2018**

	Note	2020 RMB million	2019 RMB million	2018 RMB million (Note)
<b>Operating activities</b>				
Cash generated from operating activities	34(b)	10,727	39,728	21,174
Interest received		295	67	131
Interest paid		(6,646)	(7,014)	(4,255)
Income tax paid		(1,678)	(1,606)	(1,662)
<b>Net cash generated from operating activities</b>		<u>2,698</u>	<u>31,175</u>	<u>15,388</u>
<b>Investing activities</b>				
Acquisition of subsidiaries, net of cash acquired		—	176	6
Proceeds from disposal of property, plant and equipment and construction in progress		2,848	814	3,550
Proceeds from disposal of other financial assets		—	492	—
Proceeds from disposal of derivative financial instruments		51	—	—
Acquisition of other financial assets		—	(50)	(440)
Dividends received from associates		91	84	114
Dividends received from joint ventures		246	177	144
Dividends received from other investments in equity and other non-current financial assets		20	22	20
Acquisition of term deposits		(898)	(43)	(264)
Proceeds from maturity of term deposits		654	264	313
Acquisition of property, plant and equipment and other assets		(11,061)	(15,622)	(24,033)
Capital injection into an associate		—	(500)	—
Acquisition of an associate		—	(386)	—
Net refunds of aircraft lease deposits		—	145	73
<b>Net cash used in investing activities</b>		<u>(8,049)</u>	<u>(14,427)</u>	<u>(20,517)</u>
<b>Financing activities</b>				
Dividends paid to equity shareholders of the Company		—	(613)	(1,009)
Proceeds from issuance of shares		15,951	—	10,908
Proceeds from bank borrowings	34(c)	71,841	33,985	34,385
Proceeds from corporate bonds	34(c)	25,000	7,497	2,000
Proceeds from ultra-short-term financing bills	34(c)	48,300	43,489	5,500
Repayment of bank borrowings	34(c)	(52,601)	(50,374)	(34,260)
Repayment of principal under finance lease obligations	34(c)	—	—	(10,433)
Repayment of ultra-short-term financing bills	34(c)	(59,800)	(25,000)	(1,500)
Repayment of corporate bonds	34(c)	(2,655)	(12,951)	(345)
Capital element of lease rentals paid	34(c)	(20,670)	(17,784)	—
Capital injections from non-controlling interests		3,802	—	72
Payment for purchase of non-controlling interest		(260)	—	—
Net refunds of aircraft lease deposits		69	—	—
Dividends paid to non-controlling interests		(32)	(82)	(98)
<b>Net cash generated from / (used in) financing activities</b>		<u>28,945</u>	<u>(21,833)</u>	<u>5,220</u>
<b>Net increase / (decrease) / increase in cash and cash equivalents</b>		<u>23,594</u>	<u>(5,085)</u>	<u>91</u>
Cash and cash equivalents at January 1		1,849	6,928	6,826
Exchange (loss)/gain on cash and cash equivalents		(24)	6	11
<b>Cash and cash equivalents at December 31</b>	34(a)	<u>25,419</u>	<u>1,849</u>	<u>6,928</u>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 1 Corporate information

China Southern Airlines Company Limited (the “Company”), a joint stock limited company, was incorporated in the People’s Republic of China (the “PRC”) on March 25, 1995. The address of the Company’s registered office is Unit 301, 3/F, Office Tower, Guanhao Science Park Phase I, 12 Yuyan Street, Huangpu District, Guangzhou, Guangdong Province, the PRC. The Company and its subsidiaries (the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

The Company’s majority interest is owned by China Southern Air Holding Company Limited (“CSAH”), a state-owned enterprise incorporated in the PRC.

The Company’s shares are traded on the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange.

### 2 Significant accounting policies

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective for the current accounting period of the Group. Note 2(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these consolidated financial statements.

#### (a) Basis of preparation

The consolidated financial statements comprise the Group and the Group’s interest in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- other equity instrument investments (see Note 2(f));
- other non-current financial assets (see Note 2(f)); and
- derivative financial assets / liabilities (see Note 2(g)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(r)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(a) Basis of preparation (continued)**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies

##### (A) Amendments to IFRSs that are first effective for the year ended December 31, 2020

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *COVID-19-Related Rent Concessions*

Other than the amendment to IFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

##### Amendments to IFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The amendments do not have any material impact on the financial position and the financial result of the Group.

##### Amendment to IFRS 16, *COVID-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-Related Rent Concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying *COVID-19-Related Rent Concessions* granted to the Group except for aircraft and engine leases from January 1, 2020. Consequently, rent concessions received have been accounted for as negative variable lease payments recognized in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 21). There is no impact on the opening balance of equity at January 1, 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. IFRS 16 introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalized leases are primarily in relation to aircraft, flight equipment, buildings, machinery, equipment and vehicles as disclosed in Note 21. The Group also has the right to occupy space, including airport terminals, cargo/catering facilities and lounges space, in and around airports under different types of leasing arrangements.

At the date of transition to IFRS 16 (i.e. January 1, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019. The incremental borrowing rates range used for determination of the present value of the remaining lease payments was 4.75%–4.90%.

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application—the Group applied this approach to its aircraft and engine leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments—the Group applied this approach to all other leases.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before December 31, 2019;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application;
- when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### b. Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as at December 31, 2018 to the opening balance for lease liabilities recognized as at January 1, 2019:

	RMB million
Operating lease commitments at December 31, 2018	75,729
Less: commitments relating to leases exempt from capitalization:	
- short-term leases, other leases with remaining lease term ending on or before December 31, 2019 and leases of low-value assets	(924)
- leases contracts entered before December 31, 2018 but the lease period start after January 1, 2019	(16,612)
Less: total future interest expenses	(10,037)
Present value of remaining lease payments, discounted using the incremental borrowing rates at January 1, 2019	48,156
Add: finance lease liabilities recognized as at December 31, 2018	72,221
Total lease liabilities recognized at January 1, 2019	<u>120,377</u>

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**2 Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

**(B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)**

b. Lessee accounting and transitional impact (continued)

The following table summarizes the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at December 31, 2018 RMB million	Adoption of IFRS 16		Carrying amount at January 1, 2019 RMB million
		Remeasurement RMB million	Reclassification RMB million	
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>				
Property, plant and equipment, net	170,692	—	(88,880)	81,812
Right-of-use assets	—	45,437	91,914	137,351
Lease prepayments	2,970	—	(2,970)	—
Interest in associates	3,181	(527)	—	2,654
Deferred tax assets	1,566	717	—	2,283
Other assets	1,776	—	(210)	1,566
<b>Total non-current assets</b>	<b>222,877</b>	<b>45,627</b>	<b>(146)</b>	<b>268,358</b>
Prepaid expenses and other current assets	3,659	(811)	—	2,848
<b>Total current assets</b>	<b>24,072</b>	<b>(811)</b>	<b>—</b>	<b>23,261</b>
Lease liabilities	—	6,969	9,952	16,921
Current portion of obligations under finance leases	9,555	—	(9,555)	—
Accrued expenses	15,682	(83)	(397)	15,202
<b>Total current liabilities</b>	<b>83,687</b>	<b>6,886</b>	<b>—</b>	<b>90,573</b>
<b>Net current liabilities</b>	<b>59,615</b>	<b>7,697</b>	<b>—</b>	<b>67,312</b>
<b>Total assets less current liabilities</b>	<b>163,262</b>	<b>37,930</b>	<b>(146)</b>	<b>201,046</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### b. Lessee accounting and transitional impact (continued)

The following table summarizes the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position: (continued)

	Carrying amount at December 31, 2018 RMB million	Adoption of IFRS 16		Carrying amount at January 1, 2019 RMB million
		Remeasurement RMB million	Reclassification RMB million	
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>				
Lease liabilities	—	40,790	62,666	103,456
Obligations under finance leases	62,666	—	(62,666)	—
Provision for major overhauls	2,831	780	—	3,611
Deferred benefits and gains	906	—	(146)	760
Deferred tax liabilities	676	(178)	—	498
<b>Total non-current liabilities</b>	<b>84,793</b>	<b>41,392</b>	<b>(146)</b>	<b>126,039</b>
<b>Net assets</b>	<b>78,469</b>	<b>(3,462)</b>	<b>—</b>	<b>75,007</b>
Reserves	52,990	(3,124)	—	49,866
<b>Total equity attributable to equity shareholders of the Company</b>	<b>65,257</b>	<b>(3,124)</b>	<b>—</b>	<b>62,133</b>
Non-controlling interests	13,212	(338)	—	12,874
<b>Total equity</b>	<b>78,469</b>	<b>(3,462)</b>	<b>—</b>	<b>75,007</b>

##### c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at January 1, 2019, the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported operating profit and a negative impact on the profit before income tax in the Group's consolidated income statement, as compared to the results if IAS 17 had been applied during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### c. Impact on the financial result and cash flows of the Group (continued)

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element (see Note 34(c)). The capital element is classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 34(d)).

The following tables give an indication of the estimated impact of the adoption of the IFRS 16 on the Group's financial result and cash flows for the year ended December 31, 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognized under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018	
	Amounts reported under IFRS 16 (A)	Add back: IFRS 16 depreciation, maintenance and interest expenses, net (B)	Add back: net effect between IAS 17 and IFRS 16 relating to share of associates' results (C)	Deduct: estimated amounts related to operating leases as if under IAS 17 (Note (i)) (D)	Hypothetical amounts for 2019 as if under IAS 17 (E=A+B+C-D)	Compared to amounts reported for 2018 under IAS 17
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Financial result for the year ended December 31, 2019 impacted by the adoption of IFRS 16:</b>						
<b>Operating profit</b>	10,838	7,580	—	9,491	8,927	8,819
Interest expense	(5,845)	2,380	—	—	(3,465)	(3,202)
Exchange loss, net	(1,477)	756	—	—	(721)	(1,853)
Share of associates' results	(178)	—	216	—	38	263
<b>Profit before income tax</b>	4,055	10,716	216	9,491	5,496	4,364
<b>Profit for the year</b>	3,084	10,716	216	9,491	4,525	3,364

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### c. Impact on the financial result and cash flows of the Group (continued)

	2019			2018
	Amounts reported under IFRS 16 (A)	Estimated amounts related to operating leases as if under IAS 17 (Notes (i) & (ii)) (B)	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)	Compared to amounts reported for 2018 under IAS 17
	RMB million	RMB million	RMB million	RMB million
<b>Line items in the consolidated cash flow statement for the year ended December 31, 2019 impacted by the adoption of IFRS 16:</b>				
Cash generated from operating activities	39,728	(9,491)	30,237	21,174
Interest paid	(7,014)	2,380	(4,634)	(4,255)
<b>Net cash generated from operating activities</b>	<b>31,175</b>	<b>(7,111)</b>	<b>24,064</b>	<b>15,388</b>
Capital element of lease rentals paid (Note (iii))	(17,784)	7,111	(10,673)	(10,433)
<b>Net cash (used in)/generated from financing activities</b>	<b>(21,833)</b>	<b>7,111</b>	<b>(14,722)</b>	<b>5,220</b>

#### Notes:

- (i) The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.
- (ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.
- (iii) The capital element of finance leases under IAS 17 previously presented as “Repayment of principal under finance lease obligations” in 2018 consolidated cash flow statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

#### (B) New IFRSs and amendments that are first effective for the year ended December 31, 2019 (continued)

##### d. Investment properties

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of IFRS 16 does not have a significant impact on the Group’s consolidated financial statements as the Group previously elected to apply IAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at December 31, 2018.

##### e. Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group leases out a number of items of consumable spare parts and maintenance materials as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use assets arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group’s consolidated financial statements in this regard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (c) Subsidiaries and non-controlling interests

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group transactions, balances and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment. Amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. With regards to each business combination, the Group recognized non-controlling interests based on the proportion of the net identifiable assets of the subsidiary owned by the non-controlling interests.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(p) or Note 2(q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in consolidated income statement. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 2(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(l)(iii)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (c) Subsidiaries and non-controlling interests (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

#### (d) Associates and joint arrangements

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group has applied IFRS 11, *Joint Arrangements* ("IFRS 11") to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Notes 2(e) and 2(l)(iii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. The Group's share of the post-acquisition, post-tax results of the investees, adjusted for any acquisition-date excess over cost and any impairment losses for the year are recognized in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in the consolidated income statement as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(l)(iii)).

#### (f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognized / derecognized on the date the Group commits to purchase / sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 4(g)(i). These investments are subsequently accounted for as follows, depending on their classification.

##### *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

-amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (Note 2(z)(v)).

-fair value through other comprehensive income (FVOCI)—recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

-fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

##### *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(z)(iv).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (g) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealized gains or losses, being changes in fair value of the derivatives, are recognized in the profit or loss immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instruments that qualify for hedge accounting and which are designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, are accounted for as follows:

- (i) The effective portion of any gains or losses on remeasurement of the derivative financial instruments to fair value are recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. The cumulative gain or loss on the derivative financial instruments recognized in other comprehensive income is reclassified from equity to profit or loss in the same period during which the hedged forecast cash flows affects profit or loss; and
- (ii) The ineffective portion of any gains or losses on remeasurement of the derivative financial instruments to fair value is recognized in the profit or loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time remains in equity and is recognized in the profit or loss when the committed or forecast transaction ultimately occurs. When a committed or forecast transaction is no longer expected to occur, the cumulative gains or losses that was recorded in equity is immediately transferred to the profit or loss.

#### (h) Investment properties

Investment properties are land held under a lease and / or buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated at cost, less accumulated depreciation and impairment losses (Note 2(l)(iii)). Depreciation is calculated to write off the cost of items of investment properties, less their estimated residual value, if any, using the straight-line method over their estimated useful lives or lease term. Rental income from investment properties is accounted for as described in Note 2(z)(iii).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (i) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(1)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (Note 2(ac)).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

When each major aircraft overhaul is performed, its cost is recognized in the carrying amount of the component of aircraft and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 6 to 12 years. Components related to engine overhaul cost, are depreciated on the units of production method over the expected flying hours of 9-42 thousand hours. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to the consolidated income statement.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in consolidated income statement on the date of retirement or disposal.

Except for components related to overhaul costs, the depreciation of other property, plant and equipment is calculated to write off the cost of items, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	5 to 35 years
Owned aircraft	15 to 20 years
Other flight equipment	
– Jet engines	15 to 20 years
– Others, including rotables	3 to 15 years
Machinery and equipment	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (j) Construction in progress

Construction in progress represents advance payments for the acquisition of aircraft and flight equipment, office buildings, various infrastructure projects under construction and equipment pending for installation, and is stated at cost less impairment losses (Note 2(1)(iii)). Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delay in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (1) As a lessee

##### (A) Policy applicable from January 1, 2019

For a contract that contains more than a lease, a lessee and lessor shall separate the contract and account for each lease component respectively. For a contract that contains lease and non-lease components, a lessee and lessor shall separate lease components from non-lease components. However, when the Group is a lessee of land use right and buildings, the Group has elected not to separate non-lease components from lease components, and instead, account for each lease component and any associated non-lease components as a single lease component. When separate lease components from non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Group recognizes a right-of-use assets and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use assets recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use assets is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(1)(iii)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (k) Leased assets (continued)

(1) As a lessee (continued)

(A) Policy applicable from January 1, 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions in relation to all leases except for aircraft and engine leases which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

For the measurement of component accounting for right-of-use assets and subsequent major overhaul performed, see Note 2(i).

The Group presents right-of-use assets that do not meet the definition of investment property in right-of-use assets and presents lease liabilities separately in the consolidated statement of financial position.

The cost of acquiring land held under a lease is amortized on a straight-line basis over the respective periods of lease terms which range from 30 to 70 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (k) Leased assets (continued)

##### (1) As a lessee (continued)

##### (B) Policy applicable prior to January 1, 2019

In the comparative periods prior to January 1, 2019, an arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

##### (i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

##### (ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(1)(iii). Finance charges implicit in the lease payments are charged to consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to consolidated income statement in the accounting period in which they are incurred.

##### (iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the respective periods of lease terms which range from 30 to 70 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (k) Leased assets (continued)

(1) As a lessee (continued)

(B) Policy applicable prior to January 1, 2019 (continued)

(iv) *Sale and leaseback transactions*

Gains or losses on aircraft sale and leaseback transactions which result in finance leases are deferred and amortized over the terms of the related leases.

Gains or losses on aircraft sale and leaseback transactions which result in operating leases are recognized immediately if the transactions are established at fair value. If the sale price is below fair value then the gain or loss is recognized immediately. However, if a loss is compensated for by future rentals at a below-market price, then the loss is deferred and amortized over the period that the aircraft is expected to be used. If the sale price is above fair value, then any gain is deferred and amortized over the useful life of the assets.

(2) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(z)(iii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use assets arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(k)(1), then the Group classifies the sub-lease as an operating lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (l) Credit losses and impairment of assets

##### (i) Credit losses from financial instruments and lease receivables

The Group recognizes a loss allowance for expected credit losses (ECL) on the following items:

- financial assets measured at amortized cost (including cash and cash equivalents and trade and other receivables); and
- lease receivables.

Financial assets measured at fair value, including equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (l) Credit losses and impairment of assets (continued)

##### (i) Credit losses from financial instruments and lease receivables (continued)

###### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates ;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in consolidated income statement. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

###### *Basis of calculation of interest income*

Interest income recognized in accordance with Note 2(z)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(l) Credit losses and impairment of assets (continued)**

##### **(i) Credit losses from financial instruments and lease receivables (continued)**

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

#### *Write-off policy*

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in consolidated income statement in the period in which the recovery occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (I) Credit losses and impairment of assets (continued)

##### (ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

After initial recognition at fair value, the Group, as an issuer of such a contract, subsequently measure it at the higher of: (i) the amount of the loss allowance and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when ECLs on the financial guarantees are determined to be higher than the amount recorded in respect of the guarantees (i.e. the amount initially recognized, less accumulated amortization).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(1)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

##### (iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Investment properties;
- Other property, plant and equipment;
- Right-of-use assets;
- Construction in progress;
- Goodwill;
- Investments in subsidiaries, associates and joint ventures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(I) Credit losses and impairment of assets (continued)**

##### **(iii) Impairment of other non-current assets (continued)**

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(m) Inventories**

Inventories, which consist primarily of consumable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are charged to consolidated income statement when used in operations. Cost represents the average unit cost.

Inventories held for sale or disposal are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

#### **(n) Contract assets and contract liabilities**

A contract asset is recognized when the Group recognizes revenue (see Note 2(z)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets, if any, are assessed for ECL and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(o)).

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see Note 2(z)). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(o) Trade and other receivables**

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(n)).

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(l)(i)).

#### **(p) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### **(q) Trade and other payables**

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(l)(ii), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### **(r) Non-current assets held for sale**

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortized.

#### **(s) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been generally within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(l)(i).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(t) Provisions and contingent liabilities**

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### **(u) Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

#### **(v) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### **(w) Deferred benefits and gains**

In connection with the acquisitions of certain aircraft and engines, the Group receives various credits. Such credits are deferred until the aircraft and engines are delivered, at which time they are applied as a reduction of the cost of acquiring the aircraft and engines, resulting in a reduction of future depreciation.

#### **(x) Convertible bonds**

##### **(i) Convertible bonds that contain an equity component**

Convertible bonds that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortized cost. Interest expense recognized in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognized in the other reserve until either the bonds are converted or redeemed.

If the bonds are converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the other reserve is released directly to retained profits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(x) Convertible bonds (continued)**

##### **(ii) Other convertible bonds**

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see Note 2(g)). Any excess of proceeds over the amount initially recognized as the derivative component is recognized as the host liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the host liability and are recognized initially as part of the liability.

The derivative component is subsequently remeasured in accordance with Note 2(g). The host liability component is subsequently carried at amortized cost. Interest expense recognized in profit or loss on the host liability component is calculated using the effective interest method.

If the bonds are converted, the derivative financial instruments, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognized in profit or loss.

#### **(y) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (y) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exception to the recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries, associates and joint ventures to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future and it is probable that future taxable profit will be available against which the temporary difference can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period and are expected to apply when related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (z) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

##### (i) Passenger, cargo and mail revenue

Revenue is recognized when passenger, cargo and mail transportation services are provided. Unearned passenger revenue at the reporting date is included within "sales in advance of carriage" in the consolidated statement of financial position.

Ticket breakage relates to a portion of contractual rights that the Group does not expect to be exercised.

When the Group expects that the consideration received in advance of carriage is not refundable, and the customer is likely to give up a portion of the contractual rights, the Group recognizes, in proportion to the pattern of rights exercised by the customer, the breakage amount to which the Group expects to be entitled as revenue. If the Group does not expect to be entitled to a breakage amount, the Group recognizes the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Revenue from airline-related business is recognized when the customers obtain control of the relevant services.

The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission). As a practical expedient, the Group recognizes sales commission (that are regarded as directly related incremental costs of obtaining transportation contracts) as an expense when incurred, as the amortization period is one year or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(z) Revenue and other income (continued)**

##### (ii) Frequent flyer revenue

The Group maintains two major frequent flyer award programs, namely, the China Southern Airlines Sky Pearl Club and the Xiamen Airlines' Egret Card Frequent Flyer Program, which provide travel and other awards to members based on accumulated mileages.

According to the frequent flyer award programs, the Group allocates the transaction price received in relation to mileage earning flights to flight and mileage awarded on a relative stand-alone selling price basis, and recognized the portion allocated to mileage awarded as "contract liabilities". The mileage awarded to customers by third parties through means other than flights are initially recognized as "contract liabilities".

The Group estimates the standalone selling price of mileage awarded through mileage earning flights based on inputs and assumptions derived from historical data, including the estimates on the percentage of mileage awarded that are expected to be redeemed ("expected redemption rate").

Contract liabilities in relation to mileage awarded are subsequently recognized as revenue when the mileage is redeemed and the related benefits are received or used. Revenue on redeemed flights is recognized in accordance with the accounting policy set out in Note 2(z)(i), and revenue on redeemed goods or services is recognized when the customers obtain control of the goods or services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (z) Revenue and other income (continued)

##### (iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in consolidated income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

##### (iv) Dividends

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

##### (v) Interest income

Interest income is recognized as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortized cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(1)(i)).

##### (vi) Government grants

Government grants are recognized in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

#### (aa) Traffic commissions

Traffic commissions are expensed in the consolidated income statement when the transportation is provided and the related revenue is recognized. Traffic commissions for transportation not yet provided are recorded on the consolidated statement of financial position as prepaid expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(ab) Maintenance and overhaul costs**

In respect of owned and leased aircraft, components within the aircraft subject to replacement during major overhauls are recognized as Note 2(i) and Note 2(k). Other routine maintenance, repairs and overhauls are charged to consolidated income statement as and when incurred.

In respect of certain leased aircraft, the Group has responsibility to fulfil certain return conditions under relevant lease agreements. In order to fulfil these return conditions, major overhauls are required to be conducted. Accordingly, except for the estimated costs of major overhauls recognized as right-of-use assets at the lease commencement date, see Note 2(k), other estimated costs of major overhauls are accrued and charged to the consolidated income statement over the estimated overhaul period. Differences between the estimated costs and the actual costs of overhauls are charged to consolidated income statement in the period when the overhaul is performed.

In the comparative periods prior to January 1, 2019, estimated costs of major overhaul for the aircraft held under operating lease were accrued and charged to the consolidated income statement over the estimated overhaul period. As a result of the change of accounting policy, adjustments have been made to opening balances as at January 1, 2019 (see Note 2(b)).

#### **(ac) Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Borrowing costs include interest expense, finance charges in respect of lease liabilities and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 2 Significant accounting policies (continued)

#### (ad) Employee benefits

(i) *Short-term employee benefits and contributions to defined contribution retirement schemes*

Salaries, annual bonuses and contributions to defined contribution retirement schemes are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) *Retirement benefits*

According to IAS 19, *Employee Benefits*, an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices where the entity has no realistic alternative but to pay the employee benefits. The Group believes the payments of welfare subsidy to those retirees who retired before the establishment of Pension Scheme are discretionary and have not created a legal or constructive obligation. Such payments are made according to the Group's business performance, and can be suspended at any time.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 2 Significant accounting policies (continued)

#### (ae) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and the Group's presentation currency.

Foreign currencies transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the PBOC exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC exchange rates prevailing at the transaction dates. The transaction date is the date on which the Group initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Renminbi at the PBOC exchange rates prevailing at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the PBOC exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions. Statement of financial position items are translated into Renminbi at the PBOC exchange rates prevailing at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

#### (af) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **2 Significant accounting policies (continued)**

#### **(af) Related parties (continued)**

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### **(ag) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management, who is the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 3 Accounting estimates and judgements

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated 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 ongoing 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. In addition to the assumptions and estimates regarding fair value measurements of financial instruments disclosed in Note 4(g), the Group believes the following also involve key accounting estimates and judgements used in the preparation of the financial statements.

#### (a) Impairment of long-lived assets (other than goodwill)

As discussed in Note 2(l)(iii), at the end of each reporting period, the Group tests for impairment for long-lived assets or cash-generating units ("CGUs") (a portion of which related to aircraft and other flight equipment including rotables in property, plant and equipment, aircraft and engines in right-of-use assets ("aircraft and related equipment")) to determine whether the recoverable amounts have declined below the carrying amounts. If circumstances indicate that the carrying amount of long-lived assets or CGUs may not be recoverable, the assets or CGUs may be considered "impaired", and an impairment loss may be recognized.

The recoverable amount of assets or CGUs are the higher of the fair value less costs of disposal and value in use. As the fair value of certain assets or CGUs may not be publicly available, 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 operating costs and discount rates. In particular, in determining the value in use of the Group's aircraft and related equipment, significant judgements are required on the accounting estimates which are based on the assumptions relating to traffic revenue growth rates, operating costs growth rates and discount rates applied, among which, operating costs consist of jet fuel costs, landing and navigation fees, maintenance expenses, payroll and welfare.

#### (b) Frequent flyer revenue

According to the frequent flyer award programs, the allocation of stand-alone selling price of the mileage awarded involves the estimation of the expected redemption rate. The expected redemption rate is estimated based on historical experience of mileage redemption, taking into consideration future mileage redemption patterns, which are associated with changes in the terms to mileage programs and customer behavior. Different estimates could significantly affect the estimated contract liabilities and the results of operations.

#### (c) Income tax

Deferred tax assets are recognized related to operating loss carryforwards that will reduce future taxable income. The Group needs to make judgements and estimates in assessing the realizability of the operating loss carryforwards. Different estimates could significantly affect the deferred income tax assets and income tax expense in the year in which such determination is made.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 3 Accounting estimates and judgements (continued)

#### (d) Depreciation and amortization

As disclosed in Note 2(i) and Note 2(k), components related to engine overhaul costs under property, plant and equipment and right-of-use assets were depreciated on the units of production method based on flying hours. The expected flying hours of engines are based on the Group's historical overhaul experience with similar engine models. Except for components related to engine overhaul costs, other property, plant and equipment and right-of-use assets are depreciated or amortized on a straight-line basis over the estimated useful lives or lease term, which is shorter, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The Group reviews the estimated useful lives of assets annually in order to determine the amount of depreciation and amortization expense to be recorded during any financial year. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

#### (e) Provision for major overhauls

As disclosed in Note 2(k) and Note 2(ab), provision for the cost of major overhauls to fulfil the lease return conditions involves estimation of the expected overhaul cycles and overhaul costs, which are based on the historical experience of actual costs incurred for overhauls of airframes and engines of the same or similar types and current economic and airline-related developments. Different estimates could significantly affect the estimated provision and the results of operations.

#### (f) Ticket breakage revenue

The Group recognizes, in proportion to the pattern of rights exercised by the customer, the breakage amount to which the Group expects to be entitled as ticket breakage revenue. Such portion is estimated based on the Group's historical experiences, and the estimated revenue is recognized only to the extent that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Different estimates could significantly affect the ticket breakage revenue recognized in the current financial year.

### 4 Financial risk management and fair values

The Group is exposed to liquidity, interest rate, currency, credit risks and commodity jet fuel price risk in the normal course of business. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimize the adverse effects on the Group's financial performance. 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, 2020, the Group's current liabilities exceeded its current assets by RMB 56,696 million. For the year ended December 31, 2020, the Group recorded a net cash inflow from operating activities of RMB 2,698 million, a net cash outflow from investing activities of RMB 8,049 million and a net cash inflow from financing activities of RMB 28,945 million, which in total resulted in a net increase in cash and cash equivalents of RMB 23,594 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **4 Financial risk management and fair values (continued)**

#### **(a) Liquidity risk (continued)**

The Group is dependent on its ability to maintain adequate cash inflow from operations, its ability to maintain existing external financing, and its ability to obtain new external financing to meet its debt obligations as they fall due and to meet its committed future capital expenditures. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. As at December 31, 2020, the Group had banking facilities with several banks and financial institutions for providing bank financing up to approximately RMB315,452 million, of which approximately RMB228,188 million was unutilized. The Directors of the Company believe that sufficient financing will be available to the Group when and where needed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (a) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2020 Contractual undiscounted cash outflow					Carrying amount at December 31 RMB million
	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million	Total RMB million	
Borrowings	41,378	8,350	15,420	21,190	86,338	78,233
Lease liabilities	25,752	23,989	54,653	36,382	140,776	121,213
Trade and other payables and accrued charges	20,892	—	—	—	20,892	20,892
Long-term payables	111	111	207	—	429	385
	<u>88,133</u>	<u>32,450</u>	<u>70,280</u>	<u>57,572</u>	<u>248,435</u>	<u>220,723</u>

	2019 Contractual undiscounted cash outflow					Carrying amount at December 31 RMB million
	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million	Total RMB million	
Borrowings	38,304	4,251	8,720	2,007	53,282	51,180
Lease liabilities	25,404	23,860	63,003	44,814	157,081	134,074
Trade and other payables and accrued charges	21,300	—	—	—	21,300	21,300
	<u>85,008</u>	<u>28,111</u>	<u>71,723</u>	<u>46,821</u>	<u>231,663</u>	<u>206,554</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 4 Financial risk management and fair values (continued)

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's borrowings and lease liabilities issued at floating and fixed interest rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The Group determines the ratio of fixed-rate and floating-rate instruments according to the market environment and maintains an appropriate combination of fixed-rate and floating-rate instruments by reviewing and monitoring it on a regular basis.

Interest rate swaps, denominated in United States Dollars ("USD"), have been entered into to mitigate its cash flow interest rate risk. Under the interest rate swaps, the Group agrees with other third parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts (Note 27(iv)).

Cross currency swaps have been entered into to mitigate its interest rate risk and foreign currency risk. Under the cross currency swaps, the Group agrees with other third parties to exchange the floating interest and principal payments in USD for fixed interest and principal payments in RMB for certain USD bank loans. As at December 31, 2020, all cross currency swaps had been settled (Note 27(i)).

As at December 31, 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and decreased/increased the Group's retained profits by approximately RMB315 million (December 31, 2019: decreased/increased the Group's profit after tax and retained profits by approximately RMB559 million; December 31, 2018: decreased/increased the Group's profit after tax and retained profits by approximately RMB539 million).

The sensitivity analysis above indicates the instantaneous change in the Group's loss/ profit after tax and retained profits and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period 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 end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss/ profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates. This analysis is performed on the same basis as that for 2019 and 2018.

#### (c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the PBOC or other institutions authorized to buy and sell foreign exchange or at a swap center.

The Group has significant exposure to foreign currency risk as majority of the Group's lease liabilities (Note 36) are denominated in foreign currencies, principally USD, Euro and Japanese Yen. Depreciation or appreciation of Renminbi against foreign currencies affects the Group's results significantly because the Group's foreign currency liabilities generally exceed its foreign currency assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (c) Foreign currency risk (continued)

The following table indicates the instantaneous change in the Group's loss/profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. The range of such sensitivity was considered to be reasonably possible at the end of the reporting date.

	2020	
	Appreciation/(depreciation) of Renminbi against foreign currency	Decrease/(increased) on loss after tax and increase/(decrease) on retained profits RMB million
USD	1% (1%)	367 (367)
Euro	1% (1%)	24 (24)
Japanese Yen	10% (10%)	74 (74)

	2019	
	Appreciation/(depreciation) of Renminbi against foreign currency	Increase/(decrease) on profit after tax and retained profits RMB million
USD	1% (1%)	434 (434)
Euro	1% (1%)	26 (26)
Japanese Yen	10% (10%)	94 (94)

	2018	
	Appreciation/(depreciation) of Renminbi against foreign currency	Increase/(decrease) on profit after tax and retained profits RMB million
USD	1% (1%)	195 (195)
Euro	1% (1%)	28 (28)
Japanese Yen	10% (10%)	103 (103)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments, borrowings, and lease liabilities held by the Group which expose the Group to foreign currency risk at the end of the reporting period, 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 2019 and 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables, other receivables and derivative financial instruments.

##### *Cash and cash equivalents*

Substantially all of the Group's cash and cash equivalents are deposited with major reputable PRC financial institutions, which management believes are of high credit quality. As the counterparties have favorable credit ratings, the Group does not expect there to be a risk of default.

##### *Trade receivables*

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 organized by International Air Transportation Association. The use of the BSP reduces credit risk to the Group. As at December 31, 2020, the balance due from BSP agents amounted to RMB293 million (December 31, 2019: RMB984 million). The credit risk exposure to BSP and the remaining trade receivables balance are monitored by the Group on an ongoing basis and the relevant credit risk is within management's expectations.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between air ticket receivables, mileage credits sales receivables, general aviation service receivables, receivables on cooperation flights and other trade receivables.

The following table provides information about the Group's exposure to credit risk and ECLs for air ticket receivables as at December 31, 2020:

	December 31, 2020		
	Expected loss rates %	Gross carrying amount RMB million	Loss allowance RMB million
Within 3 months	0.01%	1,461	—
More than 3 months but less than 1 year	50.00%	7	4
More than 1 year but less than 2 years	100.00%	6	6
More than 2 years but less than 3 years	100.00%	5	5
More than 3 years	100.00%	13	13
		<u>1,492</u>	<u>28</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***4 Financial risk management and fair values (continued)****(d) Credit risk (continued)**

	December 31, 2019		
	Expected loss rates %	Gross carrying amount RMB million	Loss allowance RMB million
Within 3 months	0.01%	1,877	—
More than 3 months but less than 1 year	50.00%	11	6
More than 1 year but less than 2 years	100.00%	7	7
More than 2 years but less than 3 years	100.00%	—	—
More than 3 years	100.00%	16	16
		<u>1,911</u>	<u>29</u>

Expected loss rates are estimated with reference to actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The credit risk of mileage credits sales receivables, general aviation service receivables and receivables on cooperation flights are considered to be low. The Group does not make credit loss allowance for these receivables.

The Group measures loss allowance for other trade receivables amounted to RMB15 million (December 31, 2019: RMB7 million) based on ECLs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (d) Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 RMB million	2019 RMB million
Balance at January 1	36	36
Amounts written off during the year	(3)	(11)
Impairment losses written back	(1)	(1)
Impairment losses recognized during the year	11	12
Balance at December 31	<u>43</u>	<u>36</u>

#### Other receivables

The Group measures the loss allowance for other receivables equal to 12-month ECLs, unless when these has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECLs.

Set out below are the movements of loss allowances measured at 12-month and lifetime expected credit losses for the financial assets included in other receivables.

	2020				2019			
	Stage 1 12-month ECLs RMB million	Stage 2 Lifetime ECLs (not credit- impaired) RMB million	Stage 3 Lifetime ECLs (credit- impaired) RMB million	Total RMB million	Stage 1 12-month ECLs RMB million	Stage 2 Lifetime ECLs (not credit- impaired) RMB million	Stage 3 Lifetime ECLs (credit- impaired) RMB million	Total RMB million
As at January 1	1	4	—	5	1	2	2	5
Accrual	3	5	148	156	—	2	—	2
Reversal	(2)	—	—	(2)	—	—	—	—
Write-off	—	—	—	—	—	—	(2)	(2)
As at December 31	<u>2</u>	<u>9</u>	<u>148</u>	<u>159</u>	<u>1</u>	<u>4</u>	<u>—</u>	<u>5</u>

#### Derivative financial instruments

The Group entered into derivative financial instruments arrangements with counterparties such as banks. Such arrangements are settled in net. As the counterparties have favorable credit ratings, the Group does not expect there to be a risk of default.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **4 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 since the jet fuel expenses are a significant cost for the Group. A reasonable possible increase/decrease of 10% (2019 and 2018:10%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB1,880 million (2019: RMB4,281 million; 2018: RMB4,292 million). The sensitivity analysis indicates the instantaneous change in the Group's jet fuel costs that would arise assuming that the change in fuel price had occurred at the beginning of the financial year.

#### **(f) Capital management**

The Group's primary objectives in managing capital are to safeguard the Group's 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 manages its debt portfolio in conjunction with projected financing requirements. The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. During 2020, the Group's strategy, which was unchanged from 2019 and 2018, was to maintain a debt ratio at a range of levels to support the operations and development of the Group's business in the long run. In order to maintain or adjust the debt ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Except for the compliance of certain financial covenants for maintaining the Group's banking facilities and borrowings, the Group is not subject to any externally imposed capital requirements. The Group complied with the financial covenants attached to borrowings as of and for the years ended December 31, 2020 and 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (g) Fair value

##### (i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the carrying value of financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Note	Fair value at December 31, 2020 RMB million	Fair value measurements as at December 31, 2020 categorized into		
			Level 1 RMB million	Level 2 RMB million	Level 3 RMB million
<b>Recurring fair value measurement</b>					
Financial assets/(liabilities):					
Other equity instrument investments:					
-Non-listed shares	26	100	—	—	100
-Non-tradable shares	26	699	—	—	699
Other non-current financial assets:					
-Listed shares	26	64	64	—	—
-Non-listed shares	26	28	—	—	28
Derivative financial liabilities:					
-Interest rate swaps	27	(53)	—	(53)	—
-Derivative component of convertible bonds	27	(3,092)	—	(3,092)	—
-Forward foreign exchange and foreign exchange options contracts	27	(56)	—	(56)	—

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (g) Fair value (continued)

(i) Financial instruments carried at fair value (continued)

	Note	Fair value at December 31, 2019 RMB million	Fair value measurements as at December 31, 2019 categorized into		
			Level 1 RMB million	Level 2 RMB million	Level 3 RMB million
<b>Recurring fair value measurement</b>					
Financial assets:					
Other equity instrument investments:					
-Non-listed shares	26	188	—	—	188
-Non-tradable shares	26	861	—	—	861
Other non-current financial assets:					
-Listed shares	26	74	74	—	—
-Non-listed shares	26	32	—	—	32
Derivative financial assets:					
-Interest rate swaps	27	3	—	3	—
-Cross currency swaps	27	187	—	187	—
-Forward foreign exchange contracts	27	31	—	31	—

During the years ended December 31, 2020 and 2019, there were no transfers among level 1, level 2 and level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

Fair value of interest rate swaps in derivative financial assets / (liabilities) is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of the reporting period. The discount rates used are the US Treasury bond yield curve as at the end of the reporting period.

Fair value of forward foreign exchange and foreign exchange options contracts is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.

Fair value of derivative component of convertible bonds is measured by using the Binomial Model. The major inputs used in the Binomial Model are:

	At December 31, 2020
Conversion price	RMB6.24
Stock price of A shares	RMB6.01
Stock market volatility	35.38%
Risk-free interest rate	3.14%

Fair value of cross currency swaps is the estimated amount that the Group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current exchange rates and interest rates and the current creditworthiness of the swap counterparties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (g) Fair value (continued)

(i) Financial instruments carried at fair value (continued)

Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable inputs	Range
Other equity instruments investments			
-Non-listed shares (1)&(3)	Market comparable companies	Discount for lack of marketability	42%
-Non-tradable shares (2)&(3)	Discounted cash flow	Expected profit growth rate during the projection period	-10%-15%
		Perpetual growth rate	3%
		Perpetual dividend payout rate	80%
		Expected dividend payout rate during the projection period	33%
		Discount rate	10.09%
Other non-current financial assets			
-Non-listed shares (2)	Discounted cash flow	Expected profit growth rates during the projection period	5%-15%
		Perpetual growth rates	1%-4%
		Perpetual dividend payout rates	80%
		Expected dividend payout rates during the projection period	27%-43%
		Discount rates	9.72%-11.64%

- (1) The fair value of non-listed shares are determined by using comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.
- (2) The fair value of these non-tradable shares and non-listed shares is determined by discounting projected cash flow series associated with respective investments. The valuation takes into account the expected profit growth rates and expected dividend payout rate of the investees. The discount rates used have been adjusted to reflect specific risks relating to respective investees. The fair value measurement is positively correlated to the expected profit growth rates during the projection period, perpetual growth rate, perpetual dividend payout rate and expected dividend payout rates during the projection period of respective investees, and negatively correlated to the discount rates.
- (3) Any gain or loss arising from the remeasurement of the Group's unlisted or non-tradable equity securities held for strategic purposes are recognized in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 4 Financial risk management and fair values (continued)

#### (g) Fair value (continued)

##### (ii) Financial instruments not carried at fair value

All other financial instruments, including cash and cash equivalents, amounts due from/to related companies, trade and other receivables, trade and other payables, borrowings and lease liabilities are carried at amounts not materially different from their fair values as at December 31, 2020 and 2019.

### 5 Operating revenue

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery, and other extended transportation services.

#### (i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major services lines is as follow:

	Note	2020 RMB million	2019 RMB million	2018 RMB million
Revenue from contracts with customers within the scope of IFRS 15:				
Disaggregated by service lines				
-Traffic revenue				
- Passenger		70,534	138,502	128,038
- Cargo and mail		16,493	9,615	10,026
-Commission income		2,771	2,952	2,619
-General aviation income		508	564	476
-Cargo handling income		507	359	254
-Hotel and tour operation income		390	712	676
-Ground services income		210	409	429
-Air catering income		273	353	391
-Others		689	654	536
		<u>92,375</u>	<u>154,120</u>	<u>143,445</u>
Revenue from other sources:				
-Rental income	19(g)	<u>186</u>	<u>202</u>	<u>178</u>
		<u>92,561</u>	<u>154,322</u>	<u>143,623</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in Notes 6 (a) and 6(b) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **5 Operating revenue (continued)**

- (ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date.

As at December 31, 2020, the aggregated amount of the transaction price allocated to the remaining performance obligation, which is the unredeemed credits under the frequent flyer award programs, amounted to RMB3,196 million (December 31, 2019: RMB3,331 million) (Note 38). This amount represents revenue expected to be recognized in the future when the customers obtain control of the goods or services.

### **6 Segment reporting**

#### **(a) Business segments**

The Group has two reportable operating segments “airline transportation operations” and “other segments”, according to internal organization structure, managerial needs and internal reporting system. “Airline transportation operations” comprises the Group’s passenger and cargo and mail operations. “Other segments” includes hotel and tour operation, air catering services, ground services, cargo handling and other miscellaneous services.

For the purposes of assessing segment performance and allocating resources between segments, the Group’s chief operating decision maker (“CODM”) monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the People’s Republic of China Accounting Standards for Business Enterprises (“PRC GAAP”). As such, the amount of each material reconciling item from the Group’s reportable segment (loss)/profit before taxation, assets and liabilities, which arises from different accounting policies, are set out in Note 6(c).

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Information regarding the Group’s reportable segments as provided to the Group’s CODM for the purposes of resource allocation and assessment of segment performance is set out below.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**6 Segment reporting (continued)**

**(a) Business segments (continued)**

The segment results of the Group for the year ended December 31, 2020 are as follows:

	<i>Airline transportation operations</i>	<i>Other segments</i>	<i>Elimination</i>	<i>Unallocated*</i>	<i>Total</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Disaggregated by timing of revenue recognition</b>					
Point in time	2,856	1,727	(1,483)	—	3,100
Over time	89,196	2,448	(2,183)	—	89,461
Revenue from external customers	91,722	839	—	—	92,561
Inter-segment sales	330	3,336	(3,666)	—	—
<b>Reportable segment revenue</b>	<b>92,052</b>	<b>4,175</b>	<b>(3,666)</b>	<b>—</b>	<b>92,561</b>
<b>Reportable segment loss before taxation</b>	<b>(14,727)</b>	<b>(112)</b>	<b>1</b>	<b>(348)</b>	<b>(15,186)</b>
<b>Reportable segment loss after taxation</b>	<b>(11,388)</b>	<b>(61)</b>	<b>1</b>	<b>(372)</b>	<b>(11,820)</b>
<b>Other segment information</b>					
Income tax	(3,339)	(51)	—	24	(3,366)
Interest income	328	26	(32)	—	322
Interest expense	6,739	11	(34)	—	6,716
Depreciation and amortization	24,438	143	—	—	24,581
Impairment loss	4,015	2	—	—	4,017
Credit losses	153	11	—	—	164
Share of associates' results	—	—	—	(776)	(776)
Share of joint ventures' results	—	—	—	309	309
Change in fair value of financial assets / liabilities	—	—	—	53	53
Non-current assets additions during the year <sup>#</sup>	24,039	547	(49)	—	24,537



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 6 Segment reporting (continued)

#### (a) Business segments (continued)

The segment results of the Group for the year ended December 31, 2019 are as follows:

	<i>Airline transportation operations</i>	<i>Other segments</i>	<i>Elimination</i>	<i>Unallocated*</i>	<i>Total</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Disaggregated by timing of revenue recognition</b>					
Point in time	2,996	2,747	(2,401)	—	3,342
Over time	149,799	2,785	(1,604)	—	150,980
Revenue from external customers	152,591	1,731	—	—	154,322
Inter-segment sales	204	3,801	(4,005)	—	—
<b>Reportable segment revenue</b>	<b>152,795</b>	<b>5,532</b>	<b>(4,005)</b>	<b>—</b>	<b>154,322</b>
<b>Reportable segment profit before taxation</b>	<b>3,020</b>	<b>558</b>	<b>2</b>	<b>490</b>	<b>4,070</b>
<b>Reportable segment profit after taxation</b>	<b>2,224</b>	<b>446</b>	<b>2</b>	<b>423</b>	<b>3,095</b>
<b>Other segment information</b>					
Income tax	796	112	—	67	975
Interest income	64	41	(31)	—	74
Interest expense	5,833	43	(31)	—	5,845
Depreciation and amortization	24,256	354	—	—	24,610
Impairment loss	38	—	—	—	38
Credit losses	11	2	—	—	13
Share of associates' results	—	—	—	(178)	(178)
Share of joint ventures' results	—	—	—	365	365
Remeasurement of the originally held equity interests in a joint venture	—	—	—	13	13
Change in fair value of financial assets / liabilities	—	—	—	265	265
Non-current assets additions during the year <sup>#</sup>	44,851	739	—	—	45,590

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**6 Segment reporting (continued)**

**(a) Business segments (continued)**

The segment results of the Group for the year ended December 31, 2018 are as follows:

	<i>Airline transportation operations</i>	<i>Other segments</i>	<i>Elimination</i>	<i>Unallocated*</i>	<i>Total</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Disaggregated by timing of revenue recognition</b>					
Point in time	2,532	1,975	(1,596)	—	2,911
Over time	139,671	3,822	(2,781)	—	140,712
Revenue from external customers	141,968	1,655	—	—	143,623
Inter-segment sales	235	4,142	(4,377)	—	—
<b>Reportable segment revenue</b>	<b>142,203</b>	<b>5,797</b>	<b>(4,377)</b>	<b>—</b>	<b>143,623</b>
<b>Reportable segment profit before taxation</b>	<b>3,448</b>	<b>604</b>	<b>(60)</b>	<b>495</b>	<b>4,487</b>
<b>Reportable segment profit after taxation</b>	<b>2,567</b>	<b>457</b>	<b>(60)</b>	<b>492</b>	<b>3,456</b>
<b>Other segment information</b>					
Income tax	881	147	—	3	1,031
Interest income	107	18	—	—	125
Interest expense	3,054	148	—	—	3,202
Depreciation and amortization	14,084	282	—	—	14,366
Impairment loss	12	—	—	—	12
Credit loss	2	1	—	—	3
Share of associates' results	—	—	—	263	263
Share of joint ventures' results	—	—	—	200	200
Fair value movement of financial instruments	—	—	—	12	12
Non-current assets additions during the year <sup>#</sup>	37,155	406	—	—	37,561

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 6 Segment reporting (continued)

#### (a) Business segments (continued)

The segment assets and liabilities of the Group as at December 31, 2020 and December 31, 2019 are as follows:

	<i>Airline transportation operations</i>	<i>Other segments</i>	<i>Elimination</i>	<i>Unallocated*</i>	<i>Total</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>As at December 31, 2020</b>					
Reportable segment assets	317,741	6,019	(4,209)	6,564	326,115
Reportable segment liabilities	<u>239,968</u>	<u>2,237</u>	<u>(4,154)</u>	<u>3,201</u>	<u>241,252</u>
<b>As at December 31, 2019</b>					
Reportable segment assets	295,439	7,048	(3,662)	7,821	306,646
Reportable segment liabilities	<u>230,738</u>	<u>2,458</u>	<u>(3,604)</u>	<u>—</u>	<u>229,592</u>

\* Unallocated assets primarily include interest in associates and joint ventures, derivative financial assets and equity securities. Unallocated liabilities primarily include derivative financial liabilities. Unallocated results primarily include the share of results of associates and joint ventures, dividend income from equity securities, and the fair value movement of financial instruments recognized through profit or loss.

# The additions of non-current assets do not include interest in associates and joint ventures, other equity instrument investments, other non-current financial assets, derivative financial assets and deferred tax assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 6 Segment reporting (continued)

#### (b) Geographical information

The Group's business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

The Group's revenue by geographical segment are analyzed based on the following criteria:

- (1) Traffic revenue from services of both origin and destination within the PRC (excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan ("Hong Kong, Macau and Taiwan")), is classified as domestic revenue. Traffic revenue with origin and destination among PRC, Hong Kong, Macau and Taiwan is classified as Hong Kong, Macau and Taiwan revenue; while that with origin from or destination to other overseas markets is classified as international revenue.
- (2) Revenue from commission income, hotel and tour operation, air catering services, ground services, cargo handling and other miscellaneous services are classified on the basis of where the services are performed.

	2020	2019	2018
	RMB million	RMB million	RMB million
Domestic	65,137	110,112	103,287
International	27,090	41,651	37,773
Hong Kong, Macau and Taiwan	334	2,559	2,563
	<u>92,561</u>	<u>154,322</u>	<u>143,623</u>

The major revenue earning asset of the Group is its aircraft fleet which is registered in the PRC and is deployed across its worldwide route network. Majority of the Group's other assets are located in the PRC. CODM 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**6 Segment reporting (continued)**

**(c) Reconciliation of reportable segment (loss)/profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements**

	Note	2020 RMB million	2019 RMB million	2018 RMB million
<b>(Loss)/profit before income tax</b>				
Reportable segment (loss)/profit before taxation	6(a)	(15,186)	4,070	4,487
Capitalization of exchange difference of specific loans	(i)	(9)	(16)	(124)
Government grants	(ii)	—	1	1
Consolidated (loss)/profit before income tax		<u>(15,195)</u>	<u>4,055</u>	<u>4,364</u>

	Note	2020 RMB million	2019 RMB million
<b>Assets</b>			
Reportable segment assets	6(a)	326,115	306,646
Capitalization of exchange difference of specific loans	(i)	47	56
Government grants	(ii)	(6)	(6)
Adjustments arising from business combinations under common control	(iii)	237	237
Others		(10)	(5)
Consolidated total assets		<u>326,383</u>	<u>306,928</u>

	Note	2020 RMB million	2019 RMB million
<b>Liabilities</b>			
Reportable segment liabilities	6(a)	241,252	229,592
Others		—	7
Consolidated total liabilities		<u>241,252</u>	<u>229,599</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **6 Segment reporting (continued)**

#### **(c) Reconciliation of reportable segment (loss)/profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements (continued)**

*Notes:*

- (i) In accordance with the PRC GAAP, exchange difference arising on translation of specific loans and related interest denominated in a foreign currency is capitalized as part of the cost of qualifying assets. Under IFRSs, such exchange difference is recognized in income statement unless the exchange difference represents an adjustment to interest.
- (ii) In accordance with the PRC GAAP, assets related government grants (other than special funds) are deducted from the cost of the related assets. Special funds granted by the government and clearly defined in the approval documents as part of “capital reserve” are accounted for as increase in capital reserve. Under IFRSs, assets related government grants are deducted to the cost of the related assets. The difference is resulted from government grants received in previous years and are recognized in capital reserve under PRC GAAP.
- (iii) In accordance with the PRC GAAP, the Company accounts for the business combination under common control by applying the pooling-of-interest method. Under the pooling-of-interest method, the difference between the historical carrying amount of the acquiree and the consideration paid is accounted for as an equity transaction. Business combinations under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose, relevant comparative figures are restated under PRC GAAP. Under IFRSs, the Company adopts the purchase accounting method for acquisition of business under common control.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***7 Flight operation expenses**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Jet fuel costs	18,797	42,814	42,922
Flight personnel payroll and welfare	10,232	12,709	11,467
Air catering expenses	1,765	3,975	3,734
Civil Aviation Development Fund	—	2,332	2,940
Aircraft operating lease charges	977	1,412	8,726
Training expenses	857	1,142	894
Aircraft insurance	191	192	163
Others	4,726	5,990	5,370
	<u>37,545</u>	<u>70,566</u>	<u>76,216</u>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**8 Maintenance expenses**

	2020	2019	2018
	RMB million	RMB million	RMB million
Aviation repair and maintenance charges	9,101	8,565	8,394
Staff payroll and welfare	2,875	2,976	2,736
Maintenance materials	1,399	1,516	1,574
	<u>13,375</u>	<u>13,057</u>	<u>12,704</u>

**9 Aircraft and transportation service expenses**

	2020	2019	2018
	RMB million	RMB million	RMB million
Landing and navigation fees	10,857	17,658	15,980
Ground service and other charges	7,886	8,933	8,399
	<u>18,743</u>	<u>26,591</u>	<u>24,379</u>

**10 Promotion and selling expenses**

	2020	2019	2018
	RMB million	RMB million	RMB million
Ticket office expenses	2,935	3,299	3,173
Sales commissions	842	2,214	2,027
Computer reservation services	352	959	892
Advertising and promotion	121	314	217
Others	757	969	727
	<u>5,007</u>	<u>7,755</u>	<u>7,036</u>

**11 General and administrative expenses**

	2020	2019	2018
	RMB million	RMB million	RMB million
General corporate expenses	3,572	3,692	3,474
Auditors' remuneration	20	20	18
- Audit services	17	18	15
- Non-audit services	3	2	3
Credit losses	164	13	3
Other taxes and levies	332	348	275
	<u>4,088</u>	<u>4,073</u>	<u>3,770</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***12 Depreciation and amortization**

	2020 RMB million	2019 RMB million	2018 RMB million (Note)
Depreciation of property, plant and equipment	8,824	9,029	13,969
Depreciation of right-of-use assets	15,388	15,263	—
Other amortization	378	328	339
	<u>24,590</u>	<u>24,620</u>	<u>14,308</u>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).

**13 Staff costs**

	2020 RMB million	2019 RMB million	2018 RMB million
Salaries, wages and welfare	22,592	24,647	22,445
Defined contribution retirement scheme	2,183	2,794	2,387
Other retirement welfare subsidy	72	206	197
Early retirement benefits	—	—	1
	<u>24,847</u>	<u>27,647</u>	<u>25,030</u>

Staff costs relating to flight operations and maintenance are also included in the respective total amounts disclosed separately in Note 7 to Note 8 above.

**14 Other net income**

	2020 RMB million	2019 RMB million	2018 RMB million
Government grants (Note)	4,209	4,129	4,348
(Losses)/gains on disposal of property, plant and equipment, net and construction in progress			
- Aircraft and spare engines and construction in progress	(18)	34	584
- Other property, plant and equipment	75	106	18
Penalty income	142	273	216
Others	278	582	272
	<u>4,686</u>	<u>5,124</u>	<u>5,438</u>

Note: Government grants mainly include subsidies granted by various local governments to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that have been recognized during the years ended December 31, 2020, 2019 and 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***15 Interest expense**

	2020	2019	2018
	RMB million	RMB million	RMB million (Note(i))
Interest on borrowings	1,914	1,840	1,891
Interest relating to lease liabilities (Note 21)	5,180	5,302	—
Interest relating to obligations under finance leases	—	—	2,409
Total interest expense on financial liabilities not at fair value through profit or loss	7,094	7,142	4,300
Less: interest expense capitalized (Note(ii))	(363)	(1,279)	(1,085)
	6,731	5,863	3,215
Interest rate swaps: cash flow hedge, reclassified from equity (Note 17&21)	(15)	(18)	(13)
	<u>6,716</u>	<u>5,845</u>	<u>3,202</u>

Notes:

- (i) The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).
- (ii) The weighted average interest rate used for interest capitalization was 2.51% per annum in 2020 (2019: 3.51%; 2018: 3.54%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***16 Income tax****(a) Income tax (benefit)/expense in the consolidated income statement**

	2020	2019	2018
	RMB million	RMB million	RMB million
PRC income tax			
–Provision for the year	1,716	1,611	962
–Under/(over)-provision in prior year	48	10	(27)
	<u>1,764</u>	<u>1,621</u>	<u>935</u>
Deferred tax (Note 29)			
Origination and reversal of temporary differences	<u>(5,132)</u>	<u>(650)</u>	<u>65</u>
Income tax (benefit)/expenses	<u>(3,368)</u>	<u>971</u>	<u>1,000</u>

In respect of a majority of the Group's airlines operation outside mainland China, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in those overseas jurisdictions. Accordingly, no provision for overseas income tax has been made for overseas airlines operation in the current and prior years.

For the year of 2020, the Company and its branches are subject to income tax rates ranging from 15% to 25% (2019: 15% to 25%; 2018: 15% to 25%), and the subsidiaries of the Company are subject to income tax rates ranging from 15% to 25% (2019: 15% to 30%; 2018: 15% to 30%). Certain subsidiaries of the Company are located in Hong Kong and are subject to income tax at 16.5%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**16 Income tax (continued)**

**(b) Reconciliation between actual income tax (benefit)/expenses and calculated tax based on accounting (loss)/profit at applicable income tax rates**

	2020 RMB million	2019 RMB million	2018 RMB million
(Loss)/profit before income tax	(15,195)	4,055	4,364
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profits in the tax jurisdictions concerned (Note 16(a))	(3,667)	964	1,089
Adjustments for tax effect of:			
Non-deductible expenses	102	18	23
Share of results of associates and joint ventures and other non-taxable income	111	(50)	(121)
Unused tax losses and deductible temporary differences for which no deferred tax assets were recognized	80	62	73
Utilization of unused tax losses and deductible temporary differences for which no deferred tax assets were recognized in prior years	(8)	(3)	(17)
Under/(over)-provision in prior year	48	10	(27)
Super deduction of research and development expenses	(34)	(30)	(20)
Income tax (benefit)/expenses	<u>(3,368)</u>	<u>971</u>	<u>1,000</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***17 Other comprehensive income**

	2020	2019	2018
	RMB million	RMB million	RMB million
<b>Cash flow hedges:</b>			
Effective portion of changes in fair value of hedging instruments recognized during the year	(30)	(54)	42
Reclassification adjustments for amounts transferred to profit or loss:			
- interest expense (Note 15)	(15)	(18)	(13)
Net deferred tax credited / (debited) to other comprehensive income	11	17	(7)
	<u>(34)</u>	<u>(55)</u>	<u>22</u>
<b>Equity investments measured at FVOCI:</b>			
Changes in fair value recognized during the year	(250)	(31)	319
Net deferred tax credited / (debited) to other comprehensive income	63	7	(80)
	<u>(187)</u>	<u>(24)</u>	<u>239</u>
<b>Share of other comprehensive income of associates</b>			
Will not be reclassified to profit or loss	(2)	3	(4)
May be reclassified subsequently to profit or loss	(3)	—	—
	<u>(5)</u>	<u>3</u>	<u>(4)</u>
<b>Differences resulting from the translation of foreign currency financial statements</b>	<u>8</u>	<u>(7)</u>	<u>(2)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 18 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended December 31, 2020 is based on the loss attributable to equity shareholders of the Company of RMB10,847 million (2019: the profits attributable to equity shareholders of the Company of RMB2,640 million; 2018: the profits attributable to equity shareholders of the Company of RMB2,895 million) and the weighted average of 14,056,887,174 shares in issue during the year (2019: 12,267,172,286 shares; 2018: 10,718,916,979 shares).

	2020 million	2019 million	2018 million
Issued ordinary shares at January 1	12,267	12,267	10,088
Effect of issuance of shares	1,790	—	631
Weighted average number of ordinary shares at December 31	<u>14,057</u>	<u>12,267</u>	<u>10,719</u>

The amount of diluted loss per share is the same as basic loss per share as the effect of convertible bonds is anti-dilutive for the year ended December 31, 2020.

The amounts of diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares in existence for the years ended December 31, 2019 and 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**19 Property, plant and equipment, net**

	Investment properties RMB million	Buildings RMB million	Aircraft RMB million	Other flight equipment including rotables RMB million	Machinery, equipment and vehicles RMB million	Total RMB million
<b>Cost:</b>						
At January 1, 2019	813	13,154	108,762	22,608	7,249	152,586
Acquisitions through business combinations	—	—	—	—	18	18
Additions	—	181	3,034	2,380	860	6,455
Transferred from construction in progress (Note 20)	—	2,515	871	200	456	4,042
Reclassification on change of holding intention:						
- transferred to other property, plant and equipment, net	(327)	327	—	—	—	—
- transferred to right-of-use assets (Note 21)	(16)	—	—	—	—	(16)
Transferred from right-of-use assets on exercise of purchase option (Note 21)	—	—	2,641	—	—	2,641
Disposals	—	(131)	(2,032)	(803)	(330)	(3,296)
At December 31, 2019	<u>470</u>	<u>16,046</u>	<u>113,276</u>	<u>24,385</u>	<u>8,253</u>	<u>162,430</u>
At January 1, 2020	470	16,046	113,276	24,385	8,253	162,430
Additions	—	12	1,435	542	935	2,924
Transferred from construction in progress (Note 20)	—	5,720	3,719	497	1,340	11,276
Reclassification on change of holding intention:						
- transferred from other property, plant and equipment, net	52	(52)	—	—	—	—
Transferred from right-of-use assets on exercise of purchase option (Note 21)	—	—	2,780	—	—	2,780
Disposals						
- disposals(d)	—	(152)	(6,830)	(399)	(558)	(7,939)
- disposal of a subsidiary(e)	—	(99)	—	—	(34)	(133)
At December 31, 2020	<u>522</u>	<u>21,475</u>	<u>114,380</u>	<u>25,025</u>	<u>9,936</u>	<u>171,338</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**19 Property, plant and equipment, net (continued)**

	Investment properties RMB million	Buildings RMB million	Aircraft RMB million	Other flight equipment including rotables RMB million	Machinery, equipment and vehicles RMB million	Total RMB million
<b>Accumulated depreciation and impairment losses:</b>						
At January 1, 2019	314	4,353	48,918	12,371	4,818	70,774
Depreciation charge for the year	29	444	6,390	1,483	683	9,029
Reclassification on change of holding intention:						
- transferred to other property, plant and equipment, net	(172)	172	—	—	—	—
- transferred to right-of-use assets (Note 21)	(5)	—	—	—	—	(5)
Transferred from right-of-use assets on exercise of purchase option (Note 21)	—	—	874	—	—	874
Disposals	—	(52)	(1,993)	(698)	(238)	(2,981)
Provision for impairment losses	—	—	18	—	—	18
Impairment losses written off on disposals	—	—	(30)	(37)	—	(67)
At December 31, 2019	<u>166</u>	<u>4,917</u>	<u>54,177</u>	<u>13,119</u>	<u>5,263</u>	<u>77,642</u>
At January 1, 2020	166	4,917	54,177	13,119	5,263	77,642
Depreciation charge for the year	23	618	5,744	1,493	946	8,824
Reclassification on change of holding intention:						
- transferred from other property, plant and equipment, net	21	(21)	—	—	—	—
Transferred from right-of-use assets on exercise of purchase option (Note 21)	—	—	982	—	—	982
Disposals						
- disposals(d)	—	(59)	(4,588)	(372)	(483)	(5,502)
- disposal of a subsidiary(e)	—	(15)	—	—	(11)	(26)
Provision for impairment losses(a)	—	—	3,202	75	2	3,279
Impairment losses written off on disposals(c)	—	—	—	(7)	—	(7)
At December 31, 2020	<u>210</u>	<u>5,440</u>	<u>59,517</u>	<u>14,308</u>	<u>5,717</u>	<u>85,192</u>
<b>Net book value:</b>						
At December 31, 2020	<u>312</u>	<u>16,035</u>	<u>54,863</u>	<u>10,717</u>	<u>4,219</u>	<u>86,146</u>
At December 31, 2019	<u>304</u>	<u>11,129</u>	<u>59,099</u>	<u>11,266</u>	<u>2,990</u>	<u>84,788</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 19 Property, plant and equipment, net (continued)

- (a) As at December 31, 2020, the Group reported aircraft and related equipment in the amount of RMB208,943 million. For the year ended December 31, 2020, the Group made impairment provision of RMB3,959 million in aggregate towards certain aged or market value declined aircraft and related equipment based on its fleet disposal plans. Among which, the impairment provision for owned aircraft and related equipment were RMB3,277 million, and the impairment provision for leased aircraft and related equipment were RMB682 million (Note 21). Impairment provision were made when asset's carrying amount exceed its recoverable amount. The estimated recoverable amounts of above aircraft and related equipment with impairment indications were based on the fair value less cost to sell, which was determined by reference to the recent observable market prices for those aircraft and related equipment or appraisal results valued by external appraisal expert based on the cost method.
- (b) As at December 31, 2020, no property, plant and equipment of the Group (December 31, 2019: certain aircraft and investment properties of the Group with carrying value of approximately RMB339 million and RMB15 million respectively) were mortgaged for certain bank borrowings (Note 35(a)(i)).
- (c) For the year ended December 31, 2020, certain other flight equipment were disposed, against which impairment provision had been provided in previous years and the impairment provision of RMB7 million was written off on disposals.
- (d) During the year ended December 31, 2020, the Group disposed certain aircraft through sale and leaseback agreement, against which cost and accumulated depreciation of the aircraft had been reduced with an aggregate amount of RMB5,375 million and RMB3,375 million respectively, a loss on disposal of aircraft of RMB73 million was recognized. At the same time, the Group recognized additional financing liabilities, right-of-use assets and lease liabilities arising from this transaction. As at December 31, 2020, additional financing balance of RMB385 million was recorded in other long-term liabilities and other liabilities.
- (e) The Group lost control of China Southern West Australian Flying College Pty Ltd ("Flying College") during the year (Note23(v)), certain property, plant and equipment and right-of-use assets held by Flying College with carrying value of approximately RMB107 million and RMB62 million respectively were derecognized.
- (f) As at December 31, 2020 and up to the date of approval of these financial statements, the Group is in the process of applying for the property title certificates in respect of the properties located in Beijing, Liaoning, Guangdong, Guangxi, Guizhou, Hainan, Henan, Heilongjiang, Hubei, Jilin, Shanghai, Xinjiang, Chongqing, Fujian, Shanxi, Zhejiang and Sichuan province, in which the Group has interests and for which such certificates have not been granted. As at December 31, 2020, carrying value of such properties of the Group amounted to RMB10,226 million (December 31, 2019: RMB7,106 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 19 Property, plant and equipment, net (continued)

- (g) The Group leased out investment properties and facilities under operating leases. The leases typically run for an initial period of one to fifteen years, with an option to renew the leases after that date at which time all contract terms are renegotiated. In this connection, rental income totaling RMB186 million (2019: RMB202 million; 2018: RMB 178 million) was recognized by the Group during the year in respect of the leases. Directors estimated the fair value of these investment properties approximate the carrying amount.

The properties are reclassified between investment properties and other property, plant and equipment, upon the intention of commencement or cessation of lease.

The Group's total future minimum lease income under non-cancellable operating leases are as follows:

	2020 RMB million	2019 RMB million
Within 1 year	66	38
After 1 year but within 5 years	120	74
After 5 years	97	36
	<u>283</u>	<u>148</u>

- (h) Components related to engine overhaul costs under property, plant and equipment and right-of-use assets were originally depreciated using the straight-line method by the Group. Upon analysis of historical data over past years and assessment of the actual consumption model and the expected method of relevant economic benefit realization in respect of the overhaul components of engines, the Group is of the view that the consumption of components related to engine overhaul costs is more directly associated with the actual flying hours. Therefore, the Group is of the view that changing the depreciation method of components related to engine overhaul costs to the units of production method can more truly and objectively reflect the actual consumption of assets, the financial position and operating performance of the Group. This change in accounting estimates has been applied prospectively with effect from April 1, 2020. The comparison of depreciation method of components related to engine overhaul costs before and after the change is detailed as below:

<u>Components related to engine overhaul costs</u>	<u>Before the change</u>	<u>After the change</u>
Expected useful lives/Expected flying hours	3-5.5 years	9-42 thousand hours
Estimated net residual rate	—	—
Annual depreciation rate / Depreciation rate per thousand flying hours	18.2%-33.3%	2.4%-11.1%

As a result of this change in accounting estimates, the consolidated loss before tax of the Group was decreased by approximately RMB1,618 million during 2020. As it is impractical to accurately forecast the flying hours of the engines of the Group for the future periods, the Group is of the view that it is unable to estimate the respective impacts on the financial information of the Group for the future periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***20 Construction in progress**

	<b>Advance payment for aircraft and flight equipment</b>	<b>Others</b>	<b>Total</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
At January 1, 2019	31,680	6,111	37,791
Additions	10,512	5,780	16,292
Transferred to property, plant and equipment (Note 19)	(1,071)	(2,971)	(4,042)
Transferred to right-of-use assets (Note 21)	(10,202)	(313)	(10,515)
Transferred to others	—	(304)	(304)
At December 31, 2019	<u>30,919</u>	<u>8,303</u>	<u>39,222</u>
At January 1, 2020	30,919	8,303	39,222
Additions	8,858	4,637	13,495
Transferred to property, plant and equipment (Note 19)	(4,216)	(7,060)	(11,276)
Transferred to right-of-use assets (Note 21)	(6,219)	(2,440)	(8,659)
Transferred to others	—	(375)	(375)
At December 31, 2020	<u>29,342</u>	<u>3,065</u>	<u>32,407</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**21 Right-of-use assets**

	Aircraft and engines RMB million	Land use rights RMB million (Note 1)	Buildings RMB million	Others RMB million	Total RMB million
<b>Cost:</b>					
At January 1, 2019	187,991	3,671	1,300	138	193,100
Additions	20,609	225	1,490	51	22,375
Transfer from construction in progress (Note 20)	10,202	110	—	203	10,515
Reclassification with investment properties (Note 19)	—	16	—	—	16
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(2,641)	—	—	—	(2,641)
Disposals	(780)	—	—	—	(780)
At December 31, 2019	<u>215,381</u>	<u>4,022</u>	<u>2,790</u>	<u>392</u>	<u>222,585</u>
At January 1, 2020	215,381	4,022	2,790	392	222,585
Additions	6,526	45	412	190	7,173
Transfer from construction in progress (Note 20)	5,993	2,440	—	226	8,659
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(2,780)	—	—	—	(2,780)
Disposals					
- disposals	(4,419)	—	(180)	—	(4,599)
- disposal of a subsidiary (Note 19(e))	—	(26)	—	(43)	(69)
At December 31, 2020	<u>220,701</u>	<u>6,481</u>	<u>3,022</u>	<u>765</u>	<u>230,969</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**21 Right-of-use assets (continued)**

	Aircraft and engines RMB million	Land use rights RMB million (Note 1)	Buildings RMB million	Others RMB million	Total RMB million
<b>Accumulated amortization:</b>					
At January 1, 2019	55,048	701	—	—	55,749
Amortization charge for the year	14,485	107	637	34	15,263
Reclassification with investment properties (Note 19)	—	5	—	—	5
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(874)	—	—	—	(874)
Disposals	(769)	—	—	—	(769)
At December 31, 2019	<u>67,890</u>	<u>813</u>	<u>637</u>	<u>34</u>	<u>69,374</u>
At January 1, 2020	67,890	813	637	34	69,374
Amortization charge for the year	14,167	134	997	90	15,388
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(982)	—	—	—	(982)
Disposals					
- disposals	(4,419)	—	(132)	—	(4,551)
- disposal of a subsidiary (Note 19(e))	—	—	—	(7)	(7)
Provision for impairment losses (Note 19(a))	682	—	—	—	682
At December 31, 2020	<u>77,338</u>	<u>947</u>	<u>1,502</u>	<u>117</u>	<u>79,904</u>
<b>Net book value:</b>					
At December 31, 2020	<u>143,363</u>	<u>5,534</u>	<u>1,520</u>	<u>648</u>	<u>151,065</u>
At December 31, 2019	<u>147,491</u>	<u>3,209</u>	<u>2,153</u>	<u>358</u>	<u>153,211</u>

Note 1:

The Group was formally granted the rights to use certain parcels of land by the relevant PRC authorities for periods of 30 to 70 years, which expire before 2076.

As at December 31, 2020 and up to the date of approval of these financial statements, the Group is in the process of applying for land use right certificates in respect of certain parcels of land used by the Group. As at December 31, 2020, carrying value of such land use rights of the Group amounted to RMB3,019 million (December 31, 2019: RMB843 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the land referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right certificates.

As at December 31, 2020, no land use right of the Group (December 31, 2019: certain land use rights of the Group with an aggregate carrying value of approximately RMB87 million) was mortgaged for certain bank borrowings (Note 35(a)(i)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 21 Right-of-use assets (continued)

In addition to the amortization charged, the analysis of expense items in relation to leases recognized in profit or loss is as follows:

	2020 RMB million	2019 RMB million	2018 RMB million (Note)
Interest on lease liabilities (Note 15)	5,180	5,302	2,409
Interest rate swaps: cash flow hedge, reclassified from equity (Note 15)	(15)	(18)	(13)
Expense relating to short-term leases	1,257	2,092	—
Expense relating to leases of variable lease payments not included in the measurement of lease liabilities	106	81	—
Total minimum lease payments for leases previously classified as operating leases under IAS 17	—	—	9,920

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment and lease prepayments is also identified as right-of-use assets. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee is required to recognize the amortization of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(b).

The Group changed the accounting estimates in relation to the depreciation method of components related to engine overhaul costs, with effect from April 1, 2020 (see Note 19(h)).

During the year, additions to right-of-use assets were primarily related to the capitalized lease payments payable under new tenancy agreements and newly acquired leasehold aircraft.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 34(d) and Note 36 respectively.

As disclosed in Note 2(b), the Group has early adopted the Amendment to IFRS 16, *COVID-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all leases except for aircraft and engine leases with eligible rent concessions received by the Group during the period. The amount of above rent concessions for the year ended December 31, 2020 was RMB7 million.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***22 Goodwill**

	2020 RMB million	2019 RMB million
<b>Cost and carrying amount:</b>	<u>237</u>	<u>237</u>

**Impairment tests for cash-generating units containing goodwill**

	2020 RMB million	2019 RMB million
Southern Airlines Group Import and Export Trading Company (“SAIETC”)	182	182
Xiamen Airlines Culture and Media Co., Ltd. (“XACM”)	55	55
<b>Total</b>	<u>237</u>	<u>237</u>

The recoverable amount of the CGU is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which does not exceed the long-term average growth rates for the business in which the CGU operates.

The cash flows of the above entities are discounted using pre-tax discount rates ranging from 10.5% to 13.5% (2019: 10.5% to 13.5%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***23 Subsidiaries**

All the subsidiaries of the Company are unlisted. The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group.

<u>Name of company</u>	<u>Place of establishment/ operation</u>	<u>Registered capital</u>	<u>Proportion of ownership interest held by the Company</u>	<u>Principal activity</u>
China Southern Airlines Henan Airlines Company Limited (i)	PRC	RMB 6,000,000,000	60%	Airline transportation
Xiamen Airlines Company Limited (“Xiamen Airlines”) (i)	PRC	RMB 14,000,000,000	55%	Airline transportation
Chongqing Airlines Company Limited (i)	PRC	RMB 1,200,000,000	60%	Airline transportation
Shantou Airlines Company Limited (i)	PRC	RMB 280,000,000	60%	Airline transportation
Zhuhai Airlines Company Limited (i)	PRC	RMB 250,000,000	60%	Airline transportation
Guizhou Airlines Company Limited (i)	PRC	RMB 1,281,000,000	60%	Airline transportation
Guangzhou Nanland Air Catering Company Limited (ii)	PRC	RMB 240,000,000	70.50%	Air catering
Beijing Southern Airlines Ground Services Company Limited (i)	PRC	RMB 100,000,000	100%	Airport ground services
Nan Lung International Freight Limited	Hong Kong	HKD 3,270,000	51%	Freight services
Southern Airlines General Aviation Company Limited (“SAGA”) (i)&(iii)	PRC	RMB 1,000,000,000	57.88%	General aviation



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 23 Subsidiaries (continued)

Name of company	Place of establishment/ operation	Registered capital	Proportion of ownership interest held by the Company	Principal activity
SAIETC (i)	PRC	RMB 30,000,000	100%	Import and export agent services
Zhuhai Xiang Yi Aviation Technology Company Limited (i)	PRC	RMB 469,848,400	100%	Flight simulation services
China Southern Airlines Xiongan Airlines Company Limited (i)	PRC	RMB 10,000,000,000	100%	Airline transportation
Southern Airlines Freight and Logistics (Guangzhou) Co.,Ltd. ("SAFL") (i)&(iv)	PRC	RMB 1,818,181,820	55%	Logistics operations
Shenyang Northern Aircraft Maintenance Co., Ltd. ("Shenyang Aircraft Maintenance") (i)&(vii)	PRC	RMB 31,520,545	100%	Aircraft repair and maintenance services
Guangdong Southern Airline Pearl Aviation Services Company Limited ("Pearl Aviation Services") (i)&(viii)	PRC	RMB 5,000,000	100%	Hotel management services
Southern Airlines Nansha Finance Leasing (Guangzhou) Co.,Ltd. (i)	PRC	RMB 2,000,000,000	100%	Leasing services

(i) These subsidiaries are PRC limited liability companies.

(ii) This subsidiary is a sino-foreign equity joint venture company established in the PRC.

(iii) SAGA

On December 18, 2020, certain third parties invested into SAGA by means of capital injection and acquisition of the Company's partial equity interests in SAGA, the Company's equity interests in SAGA were decreased from 100% to 57.88%. Changes in the Company's equity interests do not result in a loss of control of SAGA.

The above transactions had the following effect on the Group's other reserves in equity:

	RMB million
Cash consideration received from third parties on partial disposal of equity interests	332
Capital injection from third parties	510
Less: Portion of net assets of SAGA disposed	667
<b>Other reserves in equity</b>	<b>175</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 23 Subsidiaries (continued)

#### (iv) SAFL

On December 24, 2020, certain third parties made capital injections into SAFL, causing a decrease of the Company's equity interests in SAFL from 100% to 55%. Changes in the Company's equity interests do not result in a loss of control of SAFL.

The above transactions had the following effect on the Group's other reserves in equity:

	RMB million
Capital injection from third parties	3,355
Less: Portion of net assets of SAFL disposal	<u>2,830</u>
<b>Other reserves in equity</b>	<b><u>525</u></b>

#### (v) Flying College

Flying College, a former subsidiary of the Company, went into liquidation process on 21 December 2020. Since then, the Group lost control of Flying College, and Flying College was no longer within the consolidation scope. The operating results and cash flow of Flying College before entering the liquidation process had been included in the consolidated income statement and consolidated cash flow statement of the Group this year. The Group recognized a net loss of RMB8 million on disposal of Flying College.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 23 Subsidiaries (continued)

(vi) Guangzhou Baiyun International Logistic Company Limited (“Baiyun Logistic”)

In January 2020, the Company acquired 29% equity interests from a third party in Baiyun Logistic, a subsidiary that the Company previously held 61% equity interests. On May 31, 2020, the Company transferred the then hold 90% equity interests of Baiyun Logistic to SAFL as capital injection. Since then, Baiyun Logistic became an indirect subsidiary of the Company through SAFL.

The above transactions had the following effect on the Group’s other reserves in equity:

	<b>RMB million</b>
Cash consideration paid	260
Less: Portion of net assets of Baiyun Logistic acquired	105
<b>Other reserves in equity</b>	<b>155</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 23 Subsidiaries (continued)

#### (vii) Shenyang Aircraft Maintenance

Pursuant to the equity transfer agreement entered into between the Company and a third party, the Company acquired 21% equity interests Shenyang Aircraft Maintenance, a former joint venture of the Company, at a cash consideration of RMB14 million on April 23, 2019. On the same date, the Company obtained control over Shenyang Aircraft Maintenance, and Shenyang Aircraft Maintenance became a wholly-owned subsidiary of the Company. The acquisition of Shenyang Aircraft Maintenance enables the Group to engage in comprehensive maintenance service.

In the period from the acquisition date to December 31, 2019, Shenyang Aircraft Maintenance contributed revenue of RMB39 million and profit of RMB1 million to the Group's results. If the acquisition had occurred on January 1, 2019, management estimates that consolidated revenue would have been increased by RMB21 million, and consolidated profit for the year would have been increased by RMB4 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2019. The information above is the amount before inter-company eliminations.

The above acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Recognized values on acquisition RMB million
Non-current assets	31
Current assets	41
Non-current liabilities	(6)
Current liabilities	(3)
Total net identifiable assets	<u>63</u>

Analysis of the net inflow of cash and cash equivalents in respect of the acquisitions:

Cash consideration paid	(14)
Cash and cash equivalents acquired	<u>26</u>
Net cash inflow	<u>12</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 23 Subsidiaries (continued)

#### (viii) Pearl Aviation Services

Pursuant to the equity transfer agreement entered into between the Company and the other third parties shareholders of Pearl Aviation Services, the Company acquired 100% equity interests in Pearl Aviation Services at a consideration of RMB9 million on December 17, 2019. On the same date, the Company obtained the control of Pearl Aviation Services, and Pearl Aviation Services became a wholly-owned subsidiary of the Company. The acquisition of Pearl Aviation Services enables the Group to engage in hotel management services business.

As the acquisition was completed in December, limited amount of revenue and profit were contributed to the Group by Pearl Aviation Services. If the acquisition had occurred on January 1, 2019, management estimates that consolidated revenue would have been increased by RMB499 million, and consolidated profit for the year would have been increased by RMB17 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2019. The information above is the amount before inter-company eliminations.

The above acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Recognized values on acquisition RMB million
Non-current assets	19
Current assets	252
Current liabilities	(257)
Total net identifiable assets	<u>14</u>

Analysis of the net inflow of cash and cash equivalents in respect of the acquisitions:

Cash consideration paid	(9)
Cash and cash equivalents acquired	<u>173</u>
Net cash inflow	<u>164</u>

#### (ix) Flying College

Pursuant to the subscription agreement entered into between the Company, CAE International Holding Limited, Nan Lung Holding Limited and Flying College, the Company made a capital injection of cash equivalent to RMB63 million to Flying College on November 20, 2018, as a result of which the Company's equity interests in Flying College increased from 48.12% to 84.30%. After the capital injection, the Company is entitled to appoint all 3 members of Board of directors of Flying College in accordance with the subscription agreement, and Flying College thus became a subsidiary of the Company upon completion of the capital injection. The acquisition through the capital injection of Flying College enables the Group to engage in pilot flying training services.

In the period from the acquisition date to December 31, 2018, Flying College contributed a loss of RMB5 million to the Group's results. If the acquisition had occurred on January 1, 2018, management estimates that consolidated revenue would have been increased by RMB0 million, and consolidated profit for the year would have been decreased by RMB60 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2018. The information above is the amount before inter-company eliminations.

The above acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Recognized values on acquisition RMB million
Non-current assets	153
Current assets	77
Current liabilities	(155)
Total net identifiable assets	<u>75</u>

Analysis of the net inflow of cash and cash equivalents in respect of the acquisitions:

Cash consideration paid	(63)
Cash and cash equivalents acquired	<u>69</u>
Net cash inflow	<u>6</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***23 Subsidiaries (continued)**

(x) Material non-controlling interests :

As at December 31, 2020, the balance of total non-controlling interests is RMB15,547 million (December 31, 2019: RMB13,223 million), of which RMB8,809 million (December 31, 2019: RMB9,003 million) is for Xiamen Airlines and RMB2,892 million (December 31, 2019: Nil) is for SAFL. The rest of non-controlling interests are not individually material.

- Set out below are the summarized financial information for Xiamen Airlines.

	2020	2019
	RMB million	RMB million
Non-controlling interests percentage	45%	45%
Current assets	2,292	3,010
Non-current assets	50,975	53,855
Current liabilities	(16,033)	(15,494)
Non-current liabilities	(18,431)	(22,233)
Net assets	18,803	19,138
Carrying amount of non-controlling interests	8,809	9,003
Revenue	20,675	32,612
(Loss)/profit for the year	(181)	784
Total comprehensive income	(304)	798
(Loss)/profit allocated to non-controlling interests	(109)	350
Dividend paid to non-controlling interests	31	45
Net cash generated from operating activities	4,268	8,259
Net cash used in investing activities	(1,430)	(1,990)
Net cash used in financing activities	(3,201)	(6,097)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***23 Subsidiaries (continued)**

(x) Material non-controlling interests (continued):

- Set out below are the summarized financial information for SAFL (Note23(iv)).

	<b>2020</b>
	<b>RMB million</b>
Non-controlling interests percentage	45%
Current assets	8,479
Non-current assets	732
Current liabilities	(2,708)
Non-current liabilities	(112)
Net assets	6,391
Carrying amount of non-controlling interests	2,892
Revenue	15,397
Profit for the year	4,013
Total comprehensive income	4,013
Profit allocated to non-controlling interests	16
Dividend paid to non-controlling interests	2
Net cash generated from operating activities	5,241
Net cash used in investing activities	(1,468)
Net cash generated from financing activities	1,122

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 24 Interest in associates

	2020 RMB million	2019 RMB million
Share of net assets	<u>2,449</u>	<u>3,322</u>

All the Group's associates are unlisted without quoted market price. The particulars of the Group's principal associates as at December 31, 2020 are as follows:

	Place of establishment / operation	Group's effective interest	Proportion of ownership interest held by		Proportion of voting rights held by the Group	Principal activity
			The Company	Subsidiaries		
Southern Airlines Group Finance Co., Ltd. ("SA Finance")	PRC	48.59%	41.81%	6.78%	48.59%	Provision of airlines financial services
Sichuan Airlines Co., Ltd. ("Sichuan Airlines")	PRC	39%	39%	—	39%	Airline transportation
Southern Airlines Culture and Media Co., Ltd. ("SACM")	PRC	40%	40%	—	40%	Advertising services
Shenyang Konggang Logistic Co., Ltd. ("Shenyang Konggang")	PRC	45%	45%	—	45%	Ground services
Xinjiang Civil Aviation Property Management Limited	PRC	42.80%	42.80%	—	42.80%	Property management

There is no associate that is individually material to the Group.

The Group has interest in a number of individually immaterial associates that are accounted for using the equity method. The aggregate financial information of these associates is summarized as following:

	2020 RMB million	2019 RMB million	2018 RMB million (Note)
Aggregate carrying amount of individually immaterial associates	2,449	3,322	3,181
Aggregate amounts of the Group's share of:			
(Loss)/profit from continuing operations	(776)	(178)	263
Other comprehensive income	(5)	3	(4)
Total comprehensive income	<u>(781)</u>	<u>(175)</u>	<u>259</u>

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(b).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 25 Interest in joint ventures

	2020 RMB million	2019 RMB million
Share of net assets	<u>3,225</u>	<u>3,124</u>

All the Group's joint ventures are unlisted without quoted market price. The particulars of the Group's principal joint ventures as at December 31, 2020 are as follows:

	Place of establishment/ operation	Group's effective interest	Proportion of ownership interest held by		Proportion of voting rights held by the Group	Principal activity
			The Company	Subsidiaries		
Guangzhou Aircraft Maintenance Engineering Co., Ltd. ("GAMECO")	PRC	50%	50%	—	50%	Aircraft repair and maintenance services
MTU Maintenance Zhuhai Co. Ltd. ("MTU")	PRC	50%	50%	—	50%	Aircraft repair and maintenance services

There is no joint venture that is individually material to the Group.

The Group has interest in a number of individually immaterial joint ventures that are accounted for using the equity method. The aggregate financial information of these joint ventures is summarized as follows:

	2020 RMB million	2019 RMB million	2018 RMB million
Aggregate carrying amount of individually immaterial joint ventures	3,225	3,124	2,812
Aggregate amounts of the Group's share of:			
Profit from continuing operations and total comprehensive income	<u>309</u>	<u>365</u>	<u>200</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***26 Financial assets**

	<b>2020</b>	<b>2019</b>
	<b>RMB</b>	<b>RMB</b>
	<b>million</b>	<b>million</b>
Other equity instrument investments (FVOCI)		
- Non-listed shares	100	188
- Non-tradable shares	<u>699</u>	<u>861</u>
	<u>799</u>	<u>1,049</u>
Other non-current financial assets (FVPL)		
- Listed shares	64	74
- Non-listed shares	<u>28</u>	<u>32</u>
	<u>92</u>	<u>106</u>

Note: Dividend income generated from the investments amounted to RMB23 million for the year of 2020 in total (2019: RMB23 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 27 Derivative financial assets / (liabilities)

	Note	2020 RMB million	2019 RMB million
<i>Current assets:</i>			
Cross currency swaps	(i)	—	187
Forward foreign exchange contracts	(ii)	—	31
		—	218
<i>Non-current assets:</i>			
Interest rate swaps (FVOCI)	(iv)	—	3
<i>Current liabilities:</i>			
Forward foreign exchange and foreign exchange options contracts	(ii)	56	—
Derivative component of convertible bonds	(iii)	3,092	—
		3,148	—
<i>Non-current liabilities:</i>			
Interest rate swaps	(iv)		
-Measured at FVOCI		42	—
-Measured at FVPL		11	—
		53	—

#### Notes:

- (i) The Group entered into cross currency swaps to mitigate its interest rate risk and currency risk. Under the cross currency swaps, the Group agrees with other third parties to exchange the floating interest and principal payments in USD for fixed interest rate ranging from 3.39% to 3.67% per annum and principal payments in RMB. At December 31, 2019, the fair value of the cross currency swaps amounted to RMB187 million was recognized in assets. The notional principal of the outstanding cross currency swaps as at December 31, 2019 amounted to USD620 million. As at December 31, 2020, all cross currency swaps had been settled.
- (ii) The Group entered into forward foreign exchange and foreign exchange options contracts to mitigate its forward currency risk. At December 31, 2020, the fair value of the forward foreign exchange and foreign exchange options contracts amounted to RMB56 million was recognized in liabilities (December 31, 2019: RMB31 million in assets). The notional principal of the outstanding forward foreign exchange and foreign exchange options contracts as at December 31, 2020 amounted to USD400 million (December 31, 2019: USD1,035 million).
- (iii) In October 2020, the Group issued a total of 160,000,000 A share convertible bonds with par value of RMB100 each at par. The convertible bonds have a term of six years from the date of the issuance and the convertible bonds bear interest at the rate of 0.2% in the first year, 0.4% in the second year, 0.6% in the third year, 0.8% in the fourth year, 1.5% in the fifth year and 2.0% in the sixth year. Interest is paid once a year. Conversion rights are exercisable from April 21, 2021 to October 14, 2026 at an initial conversion price of RMB6.24 per share, subject to clauses of adjustment and downward revision of conversion price, redemption and sell-back. Convertible bonds, which conversion rights have not been exercised in five transaction days after maturity, will be redeemed at 106.5% of par value (including the interest for the sixth year). Any excess of proceeds over the fair value amount initially recognized as the derivative component is recognized as the host liability component. Transaction costs related to the issuance of the convertible bonds are allocated to the host liability and are recognized initially as part of the liability. The derivative component is subsequently remeasured at fair value while the host liability component is subsequently carried at amortized cost using the effective interest method (Note35(a)).
- As at December 31, 2020, the fair value of the derivative component of convertible bonds were recognized as derivative financial liabilities amounting to RMB3,092 million (Note4(g)(i)). For the year ended December 31, 2020, the fair value change of the derivative component of convertible bonds amounted to RMB201 million (Note28).
- (iv) In 2015, the Group entered into interest rate swaps to mitigate its cash flow interest rate risk. The interest rate swaps allow the Group to pay at fixed rate from 1.64% to 1.72% per annum to receive LIBOR. The notional principal of the outstanding interest rate swap contracts as at December 31, 2020 amounted to USD258 million (December 31, 2019: USD325 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***28 Changes in fair value of financial assets / (liabilities)**

	<b>2020</b>	<b>2019</b>
	<b>RMB million</b>	<b>RMB million</b>
Other non-current financial assets (FVPL) (Note 26)	(14)	3
Interest rate swaps (Note 27)	(11)	—
Forward foreign exchange and foreign exchange options contracts	(107)	31
Cross currency swaps	(16)	231
Derivative component of convertible bonds(Note27)	201	—
	<u>53</u>	<u>265</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**29 Deferred tax assets / (liabilities)**

**(a) Movements of net deferred tax assets are as follows:**

	At December 31, 2019 RMB million	(Charged)/ credited to consolidated income statement RMB million	Credited to other comprehensive income RMB million	At December 31, 2020 RMB million
<b>For the year ended December 31, 2020</b>				
<b>Deferred tax assets:</b>				
Net effect on right-of-use assets	1,823	(516)	—	1,307
Accrued expenses	1,114	342	—	1,456
Provision for major overhauls	262	99	—	361
Contract liabilities/other non-current liabilities	68	(11)	—	57
Provision for impairment losses	81	1,037	—	1,118
Provision for tax losses (note)	7	4,281	—	4,288
Change in fair value of derivative financial liabilities	—	—	10	10
Others	114	16	—	130
	<u>3,469</u>	<u>5,248</u>	<u>10</u>	<u>8,727</u>
<b>Deferred tax liabilities:</b>				
Accrued expenses	(191)	47	—	(144)
Depreciation allowances under tax in excess of the related depreciation under accounting	(478)	(191)	—	(669)
Change in fair value of derivative financial assets	(1)	—	1	—
Change in fair value of other equity instrument investments	(229)	—	63	(166)
Change in fair value of other non-current financial assets	(20)	4	—	(16)
Change in fair value of derivative financial liabilities	(54)	20	—	(34)
Fair value re-measurement of identifiable assets in business combination	(29)	2	—	(27)
Others	(14)	2	—	(12)
	<u>(1,016)</u>	<u>(116)</u>	<u>64</u>	<u>(1,068)</u>
<b>Net deferred tax assets</b>	<u>2,453</u>	<u>5,132</u>	<u>74</u>	<u>7,659</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**29 Deferred tax assets/(liabilities) (continued)**

**(a) Movements of net deferred tax assets are as follows: (continued)**

	At December 31, 2018	Impact on Initial application of IFRS 16	Acquired in business combination	(Charged)/ credited to consolidated income statement	Credited to other comprehensive income	At December 31, 2019
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>For the year ended December 31, 2019</b>						
<b>Deferred tax assets:</b>						
Net effect on right-of-use assets	—	1,312	—	511	—	1,823
Accrued expenses	929	—	—	185	—	1,114
Provision for major overhauls	697	(417)	—	(18)	—	262
Contract liabilities/other non-current liabilities	81	—	—	(13)	—	68
Provision for impairment losses	210	—	—	(129)	—	81
Provision for tax losses	22	—	—	(15)	—	7
Change in fair value of derivative financial liabilities	11	—	—	(11)	—	—
Others	85	—	—	29	—	114
	<u>2,035</u>	<u>895</u>	<u>—</u>	<u>539</u>	<u>—</u>	<u>3,469</u>
<b>Deferred tax liabilities:</b>						
Accrued expenses	(211)	—	—	20	—	(191)
Depreciation allowances under tax in excess of the related depreciation under accounting	(618)	—	—	140	—	(478)
Change in fair value of derivative financial assets	(18)	—	—	—	17	(1)
Change in fair value of other equity instrument investments	(236)	—	—	—	7	(229)
Change in fair value of other non-current financial assets	(19)	—	—	(1)	—	(20)
Change in fair value of financial assets	—	—	—	(54)	—	(54)
Fair value re-measurement of identifiable assets in business combination	(25)	—	(6)	2	—	(29)
Others	(18)	—	—	4	—	(14)
	<u>(1,145)</u>	<u>—</u>	<u>(6)</u>	<u>111</u>	<u>24</u>	<u>(1,016)</u>
<b>Net deferred tax assets</b>	<u>890</u>	<u>895</u>	<u>(6)</u>	<u>650</u>	<u>24</u>	<u>2,453</u>

Note: Deferred tax assets arise from deductible temporary differences and unused tax losses are recognized to the extent that it is probable that future taxable profits will be available against which the related tax benefit can be utilized. As at December 31, 2020, deferred tax assets included the amount of RMB4,281 million recognized in 2020 which related to tax losses that can be carried forward for 5-8 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***29 Deferred tax assets/(liabilities) (continued)****(b) Reconciliation to the consolidated statement of financial position:**

	2020 RMB million	2019 RMB million
Net deferred tax asset recognized in the statement of financial position	7,739	2,692
Net deferred tax liability recognized in the statement of financial position	(80)	(239)
	<u>7,659</u>	<u>2,453</u>

**(c) Deferred tax assets not recognized**

The Group's tax losses in the PRC are available for carrying forward to set off future assessable income for a maximum period of five or eight years (According to the *Notice of the Ministry of Finance on the Taxation Policy for supporting the prevention of pandemic of COVID-19 (No. 8, 2020)*, the carry over period for tax losses of enterprises in certain difficult industries suffering from the epidemic in 2020 will be extended from 5 years to 8 years). The Group's unused tax losses of RMB1,058 million (2019: RMB667 million) have not been recognized as deferred tax assets, as it was determined by management that it is not probable that future taxable profits against which the losses can be utilized will be available before they expire. The expiry dates of unrecognized unused tax losses are analyzed as follows:

	2020 RMB million	2019 RMB million
Expiring in:		
2021	92	92
2022	82	82
2023	110	116
2024	337	377
2028	437	—
	<u>1,058</u>	<u>667</u>

As at December 31, 2020, the Group's other deductible temporary differences amounting to RMB819 million (December 31, 2019: RMB951 million) have not been recognized as deferred tax assets as it was determined by management that it is not probable that future taxable profits will be available for these deductible temporary differences to reverse in the foreseeable future.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**30 Other assets**

	Software RMB million	Leasehold improvements RMB million	Others RMB million	Total RMB million
At January 1, 2019	372	242	952	1,566
Additions	75	—	338	413
Acquisitions through business combinations	—	9	23	32
Transferred from construction in progress	183	113	—	296
Amortization for the year	(148)	(113)	(67)	(328)
At December 31, 2019	<u>482</u>	<u>251</u>	<u>1,246</u>	<u>1,979</u>
At January 1, 2020	482	251	1,246	1,979
Additions	70	46	804	920
Transferred from construction in progress	277	79	—	356
Amortization for the year	(221)	(92)	(65)	(378)
At December 31, 2020	<u>608</u>	<u>284</u>	<u>1,985</u>	<u>2,877</u>

Representing:

	Note	2020 RMB million	2019 RMB million
Amount paid to related parties	41(b)&49(c)	1,222	513
Amount paid to third parties		1,655	1,466
		<u>2,877</u>	<u>1,979</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***31 Inventories**

	2020	2019
	RMB million	RMB million
Consumable spare parts and maintenance materials	1,613	1,683
Other supplies	219	264
	<u>1,832</u>	<u>1,947</u>
Less: provision	(72)	(54)
	<u><u>1,760</u></u>	<u><u>1,893</u></u>

Provision for inventories is shown as below:

	2020	2019
	RMB million	RMB million
At January 1	54	221
Provision for inventories	56	20
Written off upon disposal	(38)	(187)
At December 31	<u><u>72</u></u>	<u><u>54</u></u>

**32 Trade receivables**

	2020	2019
	RMB million	RMB million
Trade receivables	2,568	3,188
Less: loss allowance	(43)	(36)
	<u><u>2,525</u></u>	<u><u>3,152</u></u>

**(a) Ageing analysis**

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. Ageing analysis of trade receivables based on transaction date is set out below:

	2020	2019
	RMB million	RMB million
Within 1 month	1,972	2,308
More than 1 month but less than 3 months	307	555
More than 3 months but less than 12 months	231	297
More than 1 year	58	28
	<u>2,568</u>	<u>3,188</u>
Less: loss allowance	(43)	(36)
	<u><u>2,525</u></u>	<u><u>3,152</u></u>

All of the trade receivables are expected to be recovered within one year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***32 Trade receivables (continued)****(b) Trade receivables by currencies**

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2020 RMB million	2019 RMB million
RMB	2,446	2,686
USD	48	151
EURO	13	65
AUD	7	33
TWD	2	22
GBP	3	18
Others	49	213
	<u>2,568</u>	<u>3,188</u>

**33 Other receivables**

	Note	2020 RMB million	2019 RMB million
VAT recoverable		6,072	5,214
Government grants receivables	(i)	523	1,275
Rebate receivables on aircraft acquisitions		497	616
Other deposits		170	203
Others	(ii)	1,244	557
		<u>8,506</u>	<u>7,865</u>
Less: loss allowance	(iii)	<u>(159)</u>	<u>(5)</u>
		<u>8,347</u>	<u>7,860</u>

Notes:

- (i) Government grants receivables are recognized as there is reasonable assurance that they will be received and the Group has complied with the conditions attaching to them.
- (ii) The amounts include term deposits of RMB287 million (December 31, 2019: RMB43 million), which have a maturity over 3 months at acquisition. The weighted average annualized interest rate of term deposits as at December 31, 2020 is 2.07% (December 31, 2019: 2.54%).
- (iii) The Group lost control of Flying College during the year (Note23(v)). As at December 31, 2020, prepayment of training expenses made to Flying College amounting to RMB148 million was fully impaired.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***34 Cash and cash equivalents****(a) Cash and cash equivalents comprise:**

	2020 RMB million	2019 RMB million
Deposits in banks and other financial institutions	5	1
Cash at bank and other financial institutions and on hand	25,414	1,848
Cash and cash equivalents in the consolidated statement of financial position	<u>25,419</u>	<u>1,849</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2020 RMB million	2019 RMB million
RMB	24,947	1,231
USD	272	395
EURO	64	34
AUD	15	59
JPY	21	17
HKD	15	13
Others	85	100
	<u>25,419</u>	<u>1,849</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**34 Cash and cash equivalents (continued)**

**(b) Reconciliation of (loss)/profit before income tax to cash generated from operating activities**

	Note	2020 RMB million	2019 RMB million	2018 RMB million (Note)
<b>(Loss) / profit before income tax</b>		(15,195)	4,055	4,364
Adjustments for:				
Depreciation and amortization	12	24,590	24,620	14,308
Impairment losses on property, plant, equipment	19	3,279	18	—
Impairment losses on right-of-use assets	21	682	—	—
Loss on disposal of a subsidiary	23(v)	8	—	—
Credit losses	11	164	13	3
Share of associates' results	24	776	178	(263)
Share of joint ventures' results	25	(309)	(365)	(200)
Gain on disposal of property, plant and equipment and construction in progress	14	(57)	(140)	(602)
Changes in fair value of financial assets/ liabilities	28	(53)	(265)	(12)
Remeasurement of the originally held equity interests in a joint venture		—	(13)	—
Interest income		(322)	(74)	(125)
Interest expense	15	6,716	5,845	3,202
Dividends income from other non-current financial assets	26	(23)	(23)	(20)
Exchange (gain)/losses, net		(3,170)	1,268	2,820
Changes in working capital:				
Decrease / (increase) in inventories	31	133	(179)	(77)
Increase / (decrease) in contract liabilities and other non-current liabilities		(134)	(337)	450
(Decrease) / increase in sales in advance of carriage		(6,306)	1,709	1,441
(Decrease) / increase in deferred benefits and gains	45	(64)	73	(147)
Decrease in operating receivables		1,408	1,165	(5,325)
(Decrease) / increase in operating payables		(1,396)	2,180	1,357
Cash generated from operating activities		<u>10,727</u>	<u>39,728</u>	<u>21,174</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 34 Cash and cash equivalents (continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognize right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. In the comparative periods in 2018, cash payments under operating leases made by the Group as a lessee of RMB9,920 million were included in operating cash outflows in the consolidated cash flow statements. Under IFRS 16, except for short-term lease payments and payments for leases of low value assets not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows and operating cash outflows, respectively. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(b).

#### (c) Reconciliation of liabilities arising from financing activities

	<i>Bank loans and other borrowings</i>	<i>Lease liabilities</i>	<i>Interest rate swaps (assets/ liabilities)</i>	<i>Cross currency swaps (assets)</i>	<i>Derivative component of convertible bonds liabilities</i>	<i>Total</i>
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
	(Note 35)	(Note 36)	(Note 27)	(Note 27)	(Note 27)	
<b>At January 1, 2020</b>	51,180	134,074	(3)	(187)	—	185,064
<b>Changes from financing cash flows:</b>						
Proceeds from bank borrowings	71,841	—	—	—	—	71,841
Proceeds from ultra-short-term financing bills	48,300	—	—	—	—	48,300
Proceeds from corporate bonds	25,000	—	—	—	—	25,000
Repayment of bank borrowings	(52,601)	—	—	—	—	(52,601)
Repayment of ultra-short-term financing bills	(59,800)	—	—	—	—	(59,800)
Repayment of corporate bonds	(2,655)	—	—	—	—	(2,655)
Capital element of lease rentals paid(Note 34(d))	—	(20,670)	—	—	—	(20,670)
Total changes from financing cash flows	30,085	(20,670)	—	—	—	9,415
<b>Exchange adjustments</b>	142	(3,526)	—	171	—	(3,213)
<b>Changes in fair value</b>	—	—	56	16	(201)	(129)
<b>Other changes:</b>						
Increase in lease liabilities from entering into new leases during the year (Note 51)	—	11,335	—	—	—	11,335
Amount initially recognized as the derivative component of convertible bonds	(3,293)	—	—	—	3,293	—
Amortization amount of bond	119	—	—	—	—	119
Total other changes	(3,174)	11,335	—	—	3,293	11,454
<b>At December 31, 2020</b>	<u>78,233</u>	<u>121,213</u>	<u>53</u>	<u>—</u>	<u>3,092</u>	<u>202,591</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**34 Cash and cash equivalents (continued)**

**(c) Reconciliation of liabilities arising from financing activities (continued)**

	<i>Bank loans and other borrowings</i>	<i>Obligations under finance leases</i>	<i>Lease liabilities</i>	<i>Interest rate swaps (assets)</i>	<i>Cross currency swaps liabilities</i>	<i>Cross currency swaps (assets)</i>	<i>Total</i>
	RMB million (Note 35)	RMB million	RMB million (Note 36)	RMB million (Note 27)	RMB million (Note 27)	RMB million (Note 27)	RMB million
<b>At December 31, 2018</b>	54,417	72,221	—	(75)	44	—	126,607
<b>Impact on initial application of IFRS 16</b>	—	(72,221)	120,377	—	—	—	48,156
<b>At January 1, 2019</b>	54,417	—	120,377	(75)	44	—	174,763
<b>Changes from financing cash flows:</b>							
Proceeds from bank borrowings	33,985	—	—	—	—	—	33,985
Proceeds from ultra-short-term financing bills	43,489	—	—	—	—	—	43,489
Proceeds from corporate bonds	7,497	—	—	—	—	—	7,497
Repayment of bank borrowings	(50,374)	—	—	—	—	—	(50,374)
Repayment of ultra-short-term financing bills	(25,000)	—	—	—	—	—	(25,000)
Repayment of corporate bonds	(12,951)	—	—	—	—	—	(12,951)
Capital element of lease rentals paid (Note 34 (d))	—	—	(17,784)	—	—	—	(17,784)
Total changes from financing cash flows	(3,354)	—	(17,784)	—	—	—	(21,138)
<b>Exchange adjustments</b>	108	—	1,130	—	—	—	1,238
<b>Changes in fair value</b>	—	—	—	72	(44)	(187)	(159)
<b>Other changes:</b>							
Increase in lease liabilities from entering into new leases during the year (Note 51)	—	—	30,351	—	—	—	30,351
Amortization amount of bond	9	—	—	—	—	—	9
Total other changes	9	—	30,351	—	—	—	30,360
<b>At December 31, 2019</b>	51,180	—	134,074	(3)	—	(187)	185,064

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***34 Cash and cash equivalents (continued)****(d) Total cash outflow for leases****Amounts included in the cash flow statement for leases comprise the following:**

	2020	2019	2018
	RMB million	RMB million	RMB million
Within operating cash flows	(6,528)	(7,457)	(12,316)
Within investing cash flows	(45)	(224)	(113)
Within financing cash flows	(20,670)	(17,784)	(10,433)
	<u>(27,243)</u>	<u>(25,465)</u>	<u>(22,862)</u>

These amounts relate to the following:

	2020	2019	2018
	RMB million	RMB million	RMB million
Lease rentals paid	(27,198)	(25,241)	(22,749)
Acquisition of land use rights	(45)	(224)	(113)
	<u>(27,243)</u>	<u>(25,465)</u>	<u>(22,862)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***35 Borrowings**

(a) Borrowings are analyzed as follows:

	2020 RMB million	2019 RMB million
<b>Non-current</b>		
Long-term borrowings		
– secured (Note (i))	—	10
– unsecured	8,811	2,381
	<u>8,811</u>	<u>2,391</u>
Corporate bonds		
– unsecured (Note (ii))	7,500	8,646
Convertible bonds		
– unsecured (Note 27(iii))	12,833	—
Medium-term notes		
– unsecured (Note (iii))	8,990	2,600
	<u>38,134</u>	<u>13,637</u>
<b>Current</b>		
Current portion of long-term borrowings		
– secured (Note (i))	—	90
– unsecured	67	51
Short-term borrowings		
– unsecured	25,286	12,250
Ultra-short-term financing bills		
– unsecured	10,999	22,497
	<u>36,352</u>	<u>34,888</u>
Current portion of corporate bonds and medium-term notes		
– unsecured (Notes (ii)&(iii))	3,747	2,655
	<u>40,099</u>	<u>37,543</u>
<b>Total borrowings</b>	<u><u>78,233</u></u>	<u><u>51,180</u></u>
The borrowings are repayable:		
Within one year	40,099	37,543
In the second year	7,662	3,773
In the third to fifth year	14,394	8,389
After the fifth year	16,078	1,475
<b>Total borrowings</b>	<u><u>78,233</u></u>	<u><u>51,180</u></u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 35 Borrowings (continued)

(a) Borrowings are analyzed as follows (continued):

Notes:

- (i) As at December 31, 2020, the Group did not have any secured bank borrowings (December 31, 2019: RMB10 million bank borrowings were secured by certain owned aircraft with a carrying amount of RMB339 million and RMB90 million bank borrowings were secured by certain land use rights under right-of-use assets of RMB87 million and investment property of RMB15 million).
- (ii) The Group issued corporate bonds with aggregate nominal value of RMB3,000 million on November 20, 2015 at a bond rate of 3.63%. The corporate bonds mature in five years. The Company will be entitled at its option to adjust its bond rate and the investors will be entitled to request the Company to redeem all or a portion of the bonds after three years of the issue date. The bonds with nominal value of RMB345 million were redeemed by the Company in 2018 at the request of investors, and the remaining bonds of RMB2,655 million were redeemed by the Company in 2020.

The Group issued corporate bonds with aggregate nominal value of RMB5,000 million on May 25, 2016 at a bond rate of 3.12%. The corporate bonds mature in five years. The Company will be entitled at its option to adjust its bond rate and the investors will be entitled to request the Company to redeem all or a portion of the bonds after three years of the issue date. The bonds with nominal value of RMB4,851 million were redeemed by the Company in 2019 at the request of investors, and the remaining bonds of RMB149 million will be redeemed within one year.

The Group issued corporate bonds with aggregate nominal value of RMB2,000 million on November 26, 2018 at a bond rate of 3.92% with a term of 3 years. As at December 31, 2020, the corporate bonds will mature within one year.

The Group issued corporate bonds with aggregate nominal value of RMB3,000 million on February 21, 2019 at a bond rate of 3.45% with a term of 3 years. As at December 31, 2020 the corporate bonds will mature within two years.

The Group issued corporate bonds with aggregate nominal value of RMB2,000 million on May 16, 2019 at a bond rate of 3.72% with a term of 3 years. As at December 31, 2020, the corporate bonds will mature within two years.

Xiamen Airlines issued corporate bonds with aggregate nominal value of RMB1,500 million on November 20, 2019 at a bond rate of 3.58% with a term of 3 years. As at December 31, 2020, the corporate bonds will mature within two years.

Xiamen Airlines issued corporate bonds with aggregate nominal value of RMB1,000 million on March 16, 2020 at a bond rate of 2.95% with a term of 3 years. As at December 31, 2020, the corporate bonds will mature within three years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 35 Borrowings (continued)

(a) Borrowings are analyzed as follows (continued):

(iii) Xiamen Airlines issued medium-term notes with aggregate nominal value of RMB1,600 million on October 20, 2016 at an interest rate of 3.11% with a term of 5 years. As at December 31, 2020, the medium-term notes will mature within one year.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on October 18, 2019 at an interest rate of 3.20% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature in two years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on February 12, 2020 at an interest rate of 3.12% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on February 26, 2020 at an interest rate of 3.05% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on March 3, 2020 at an interest rate of 3.00% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on March 3, 2020 at an interest rate of 3.00% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on March 3, 2020 at an interest rate of 3.28% with a term of 5 years. As at December 31, 2020, the medium-term notes will mature within five years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on March 5, 2020 at an interest rate of 3.00% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB1,000 million on April 23, 2020 at an interest rate of 2.44% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB500 million on April 23, 2020 at an interest rate of 2.44% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

The Group issued medium-term notes with aggregate nominal value of RMB500 million on April 27, 2020 at an interest rate of 2.44% with a term of 3 years. As at December 31, 2020, the medium-term notes will mature within three years.

(b) As at December 31, 2020, the Group's weighted average interest rates on short-term borrowings were 2.23% per annum (December 31, 2019: 3.70% per annum).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***35 Borrowings (continued)**

(c) Details of borrowings with original maturity over one year are as follows:

	2020 RMB million	2019 RMB million
<b>Renminbi denominated borrowings</b>		
Fixed interest rate at 1.20%~4.41%per annum as at December 31, 2020, with maturities through 2034	8,028	899
Corporate Bond - Fixed interest rate at 2.95%~3.92%	9,649	11,301
Convertible Bond - Fixed interest rate (Note27(iii))	12,833	—
Medium-term notes - Fixed interest rate at 2.44%~3.28%	10,588	2,600
Floating interest rates at 90%~100% of benchmark interest rate (stipulated by PBOC) as at December 31, 2020, with maturities through 2033	850	1,633
	<u>41,948</u>	<u>16,433</u>
Less: borrowings due within one year classified as current liabilities	<u>(3,814)</u>	<u>(2,796)</u>
	<u>38,134</u>	<u>13,637</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***35 Borrowings (continued)**

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	2020 RMB million	2019 RMB million
Renminbi	78,233	46,823
USD	—	4,357
	<u>78,233</u>	<u>51,180</u>

(e) The balance of long-term and short-term borrowings as at December 31, 2019 included entrusted loans from CSAH via SA Finance to the Group amounted to RMB800 million and RMB4,720 million respectively (Note 49(d)(ii)). These loans were settled in May and June 2020.

(f) Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 4(a). As at December 31, 2020 and 2019, none of the covenants relating to drawn down facilities had been breached.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**36 Lease liabilities**

At December 31, 2020, the lease liabilities were payable as follows:

	2020 RMB million	2019 RMB million
Within 1 year	20,930	19,998
After 1 year but within 2 years	20,045	19,249
After 2 years but within 5 years	47,164	54,155
After 5 years	33,074	40,672
	<u>121,213</u>	<u>134,074</u>

	Effective interest rate	Obligations by denominated currencies				Other currencies RMB million	Total RMB million
		USD RMB million	Japanese Yen RMB million	Renminbi RMB million	Euro RMB million		
<b>For the year ended December 31, 2020</b>							
Fixed interest rates	1.75% -5.03 %	43,519	6	10,268	14	16	53,823
Floating interest rates	0% -5.22%	9,343	1,019	53,659	3,243	126	67,390
		<u>52,862</u>	<u>1,025</u>	<u>63,927</u>	<u>3,257</u>	<u>142</u>	<u>121,213</u>

	Effective interest rate	Obligations by denominated currencies				Other currencies RMB million	Total RMB million
		USD RMB million	Japanese Yen RMB million	Renminbi RMB million	Euro RMB million		
<b>For the year ended December 31, 2019</b>							
Fixed interest rates	1.75% -5.03 %	50,568	10	7,023	15	22	57,638
Floating interest rates	0% -5.22%	15,335	1,272	56,100	3,535	194	76,436
		<u>65,903</u>	<u>1,282</u>	<u>63,123</u>	<u>3,550</u>	<u>216</u>	<u>134,074</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **36 Lease liabilities (continued)**

The Group has significant lease liabilities which are denominated in USD as at December 31, 2020. The net exchange gain of RMB3,485 million for the year ended December 31, 2020 (2019: net exchange loss of RMB1,477 million; 2018: net exchange loss of RMB1,853 million) was mainly attributable to the translation of balances of lease liabilities which are denominated in USD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***37 Trade payables**

Ageing analysis of trade payables based on transaction date is set out below:

	2020 RMB million	2019 RMB million
Within 1 month	431	563
More than 1 month but less than 3 months	473	506
More than 3 months but less than 6 months	313	450
More than 6 months but less than 1 year	329	568
More than 1 year	236	230
	<u>1,782</u>	<u>2,317</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2020 RMB million	2019 RMB million
Renminbi	1,587	1,845
USD	165	423
Others	30	49
	<u>1,782</u>	<u>2,317</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***38 Contract liabilities**

	2020 RMB million	2019 RMB million
Unredeemed credits under the frequent flyer award programs (Note)	1,451	1,568
Others	<u>62</u>	<u>42</u>
	<u>1,513</u>	<u>1,610</u>

Note:

As at December 31, 2020, unredeemed credits under the frequent flyer award programs represent the aggregated amounts of the transaction price allocated to the remaining performance obligation, which is expected to be recognized as revenue in the future when the customers obtain control of the goods or services. Movement of unredeemed credits under the frequent flyer award programs is set out below:

	2020 RMB million	2019 RMB million
Balance at 1 January	3,331	3,711
-Current	1,568	1,693
-Non-current	1,763	2,018
Addition as a result of increase of the unredeemed credits under the frequent flyer award programs	1,270	1,979
Reduction as a result of revenue recognized during the year	(1,405)	(2,359)
Representing:		
-Recognized as revenue from opening balance of contract liabilities	(1,192)	(1,948)
-Recognized as revenue from current year addition of contract liabilities	<u>(213)</u>	<u>(411)</u>
Balance at 31 December	<u>3,196</u>	<u>3,331</u>
Representing:		
-Current	1,451	1,568
-Non-current (Note 40)	1,745	1,763

**39 Sales in advance of carriage**

As at December 31, 2020, the amount of sales in advance of carriage represents revenue expected to be recognized in the future when the customers obtain control of and accept the passenger transportation services to be provided by the Group. During the year, RMB6,564 million (2019: RMB8,398 million) which was included in the opening balance of the sales in advance of carriage was recognized as revenue, and RMB3,367 million was refunded to the customers as a result of COVID-19.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 40 Other non-current liabilities

	Note	2020 RMB million	2019 RMB million
Unredeemed credits under the frequent flyer award programs	38	1,745	1,763
Long-term payables (Note)		291	—
Others		—	19
		<u>2,036</u>	<u>1,782</u>

Note: As at December 31, 2020, long-term payables of RMB291 million were additional financing provided by buyer-lessor to the Group in aircraft sale and leaseback transactions, and the current portion of long-term payables of RMB94 million was recorded in other liabilities (Note 19 (d)).

### 41 Balances with related companies

#### (a) Amounts due from related companies

	Note	2020 RMB million	2019 RMB million
<b>Current</b>			
CSAH and its affiliates		10	18
Associates		57	35
Joint ventures		18	20
	49(c)	<u>85</u>	<u>73</u>

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) Prepayments to related companies for acquisition of long-term assets

	Note	2020 RMB million	2019 RMB million
<b>Non-current</b>			
CSAH and its affiliates		639	160
Associates		495	353
Joint ventures		88	—
	30&49(c)	<u>1,222</u>	<u>513</u>

#### (c) Amounts due to related companies

	Note	2020 RMB million	2019 RMB million
<b>Current</b>			
CSAH and its affiliates		225	116
Associates		13	1
Joint ventures		119	53
	49(c)	<u>357</u>	<u>170</u>

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***42 Accrued expenses**

	2020	2019
	RMB million	RMB million
Repairs and maintenance	5,268	4,312
Salaries and welfare	4,328	3,974
Landing and navigation fees	2,121	2,612
Jet fuel costs	961	1,846
Computer reservation services	575	461
Interest expense	512	345
Provision for major overhauls (Note 44)	426	883
Air catering expenses	74	147
Provision for early retirement benefits (Note)	—	1
Others	1,655	1,164
	<u>15,920</u>	<u>15,745</u>

Note: 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 service 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 recognized as provision for early retirement benefits.

**43 Other liabilities**

	2020	2019
	RMB million	RMB million
Payable for purchase of property, plant and equipment	3,432	2,070
Civil Aviation Development Fund and airport tax payable	885	1,937
Sales agent deposits	485	592
Other taxes payable	328	426
Deposit received for chartered flights	239	214
Others	2,104	2,002
	<u>7,473</u>	<u>7,241</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***44 Provision for major overhauls**

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

	2020 RMB million	2019 RMB million
At January 1	4,425	4,349
Additional provision	760	768
Utilization	<u>(543)</u>	<u>(692)</u>
At December 31	4,642	4,425
Less: current portion (Note 42)	<u>(426)</u>	<u>(883)</u>
	<u>4,216</u>	<u>3,542</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Renminbi unless otherwise indicated)

**45 Deferred benefits and gains**

	2020 RMB million	2019 RMB million
Maintenance rebates	531	600
Government grants	229	222
Others	9	11
	<u>769</u>	<u>833</u>

**46 Share capital**

	2020 RMB million	2019 RMB million
Registered, issued and paid up capital:		
<b>Trade-restricted:</b>		
2,942,637,115 A shares of RMB1.00 each owned by CSAH (2019: 489,202,658 shares of RMB1.00 each) (Note (ii))	2,942	489
1,209,621,577 H shares of RMB1.00 each (2019: 600,925,925 shares of RMB1.00 each) (Note (ii))	<u>1,210</u>	<u>601</u>
	4,152	1,090
<b>Tradable:</b>		
4,039,228,665 A shares of RMB1.00 each owned by CSAH (2019: 4,039,228,665 shares of RMB1.00 each)	4,039	4,039
4,072,291,766 A shares of RMB1.00 each (2019: 4,072,291,766 shares of RMB1.00 each)	4,073	4,073
3,065,523,272 H shares of RMB1.00 each (2019: 3,065,523,272 shares of RMB1.00 each)	<u>3,065</u>	<u>3,065</u>
	11,177	11,177
	<u>15,329</u>	<u>12,267</u>

Notes:

- (i) All the A and H shares rank pari passu in all material respects.
- (ii) In April and June 2020, the Company issued 608,695,652 H shares (“new H shares”) to a fellow subsidiary of CSAH at the price of HKD5.75 per share, and issued 2,453,434,457 A shares (“new A shares”) to CSAH at the price of RMB5.21 per share, respectively. RMB3,062 million was credited to share capital and RMB12,889 million was credited to share premium. The new A shares issued to CSAH are restricted for trading for 36 months from the date of completion of the issuance. Further, in accordance with the H shares subscription agreement entered into between the Company and the fellow subsidiary of CSAH, the fellow subsidiary of CSAH committed not to trade or transfer any of the new H shares for 36 months from the date of completion of the issuance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 47 Reserves

#### (a) Dividends

The directors did not propose any final dividend in respect of the years ended December 31, 2020 and 2019.

#### (b) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

#### (c) Fair value reserve (recycling)

The fair value reserve (recycling) mainly comprises the hedge reserve which comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in Note 2(g) and share of an associate's cumulative net change in the fair value of debts investments measured at FVOCI.

#### (d) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) mainly comprises the Group's and share of an associate's cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(f)).

#### (e) Other reserves

Other reserves mainly comprise statutory surplus reserve. According to the PRC Company Law and the Articles of Association of the Company and its certain 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 dividend to shareholders and when there are retained profits at the end of the financial year.

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.

For the year ended December 31, 2020, the Company did not make any appropriation of statutory surplus reserve as the Company recorded a net loss in 2020 (2019: RMB181 million).

For the year ended December 31, 2020, the Group recorded an increase in other reserves of RMB700 million arising from capital injection from non-controlling interests in subsidiaries (December 31, 2019: nil), a decrease in other reserves of RMB155 million arising from acquisition of non-controlling interests in a subsidiary (December 31, 2019: a decrease of RMB10 million), and a decrease in other reserves of RMB7 million arising from adjustments in carrying amount of interest in associates relating to changes in an associate's reserves (December 31, 2019: an increase of RMB44 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***48 Commitments****(a) Capital commitments**

Capital commitments outstanding as at December 31, 2020 not provided for in the financial statements were as follows:

	2020 RMB million	2019 RMB million
<b>Commitments in respect of aircraft and flight equipment</b>		
– authorized and contracted for	56,547	71,224
<b>Investment commitments</b>		
– authorized and contracted for		
– share of capital commitments of a joint venture	405	322
– capital contributions for acquisition of non-controlling interests in a subsidiary	—	232
	405	554
– authorized but not contracted for		
– share of capital commitments of a joint venture	26	31
	431	585
<b>Commitments for other property, plant and equipment</b>		
– authorized and contracted for	4,970	4,571
– authorized but not contracted for	5,479	10,451
	10,449	15,022
	67,427	86,831

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***48 Commitments (continued)****(a) Capital commitments (continued)**

As at December 31, 2020, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for aircraft and flight equipment are as follows:

	2020 RMB million	2019 RMB million
2020	—	41,442
2021	28,382	21,077
2022	15,033	5,464
2023	11,910	3,241
2024 and afterwards	1,222	—
	<u>56,547</u>	<u>71,224</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***49 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 (excluding independent non-executive directors) as disclosed in Note 57, is as follows:

	2020	2019	2018
	RMB '000	RMB '000	RMB '000
Salaries, wages and welfare	10,746	13,803	15,218
Retirement scheme contributions	1,458	1,785	1,797
	<u>12,204</u>	<u>15,588</u>	<u>17,015</u>
	2020	2019	2018
	RMB '000	RMB '000	RMB '000
Directors and supervisors (Note 57)	1,590	1,298	878
Senior management	10,614	14,290	16,137
	<u>12,204</u>	<u>15,588</u>	<u>17,015</u>

Total remuneration is included in "staff costs" (Note 13).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 49 Material related party transactions (continued)

#### (b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group

The Group provided various operational services to CSAH and its affiliates, associates, joint ventures and other related companies of the Group during the normal course of its business. The Group also received operational services provided by these entities.

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

	Note	2020 RMB million	2019 RMB million	2018 RMB million
<b>Income received from CSAH and its affiliates</b>				
Rental income	(i)	7	7	4
Aviation material sales income	(ii)	7	36	6
Entrusted management income	(iii)	27	27	27
Commission income	(iv)	5	14	—
Others		2	1	9
<b>Purchase of goods and services from CSAH and its affiliates</b>				
Cargo handling charges	(v)	—	—	111
Commission expenses	(v)	36	44	14
Transportation expense	(v)	—	—	10
Maintenance material purchase expense and lease charges for maintenance material	(ii)	91	165	98
Software service expenses	(ii)	—	—	5
Air catering supplies expenses	(i)	88	142	135
Repairing charges	(vi)	—	—	1,184
Lease charges for land and buildings	(vii)	350	353	294
Property management fee	(viii)	129	151	106
Acquisition of property	(ix)	—	—	160
Others		7	7	5
<b>Purchase of goods and services from joint ventures and associates</b>				
Repairing charges	(vi)	1,773	2,442	786
Repairing charges and maintenance material purchase expenses	(x)	2,331	2,956	2,692
Ground service expenses	(xi)	131	112	123
Air catering supplies	(xii)	18	93	98
Advertising expenses	(xiii)	169	196	105
Property management fee	(xiv)	18	26	28
Commission expenses	(xv)	10	14	—
Others		16	7	7
<b>Income received from joint ventures and associates</b>				
Maintenance material sales and handling income	(xvi)	14	7	15
Entrustment income for advertising media business	(xiii)	2	1	1
Repairing income	(xv)	12	4	11
Air catering supplies income	(xv)	8	35	16
Pilot training income	(xv)	15	35	—
Commission income	(xvii)	—	—	20
Ground service income	(xviii)	16	16	13
Labor service income and rental income	(xix)	—	8	22
Others		9	15	13
<b>Income received from other related company</b>				
Air tickets income	(xx)	—	—	9

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**49 Material related party transactions (continued)**

**(b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)**

	Note	2020 RMB million	2019 RMB million	2018 RMB million
<b>Purchase of goods and services from other related companies</b>				
Advertising expenses	(xx)	—	—	10
Computer reservation services	(xxi)	433	685	592
Aviation supplies expenses	(xxii)	—	53	48
Canteen service	(xxii)	—	24	19
Others		—	9	3
<b>Acquisition from CSAH and its affiliates</b>				
Equity transaction	(vi)	—	—	1,602
<b>Aircraft related transactions with CSAH and its affiliates</b>				
Payment of lease charges on aircraft	(xxiii)	4,670	2,696	1,542
Consideration of disposal of aircraft	(xxiii)	—	—	481

- (i) Shenzhen Air Catering Co., Ltd. (“SACC”) is an associate of CSAH.  
Air catering supplies expenses are payable by the Group in respect of certain in-flight meals and related services with SACC.  
In addition, the Group leased certain equipment to SACC under operating lease agreements.
- (ii) China Aviation Supplies Holding Company (“CASC”) is an associate of CSAH.  
The Group purchases software service, as well as purchases and leases maintenance materials from CASC, and CASC also purchases maintenance materials from the Group.
- (iii) The Group provides entrusted management service to CSAH.
- (iv) Southern Airlines Insurance Brokerage Co., Ltd. (“SAIB”), is a wholly-owned subsidiary of CSAH. The Group provides certain website resources to SAIB for the sales of air insurance.
- (v) China Southern Airlines Group Ground Services Co., Ltd. (“GSC”), is a wholly-owned subsidiary of CSAH. GSC entered into liquidation at the year end of 2018 and has no transaction with the Group this year.  
Commission is earned by Shenzhen Baiyun Air Service Co.,Ltd., the subsidiary of GSC, in connection with the air tickets sold by them on behalf of the Group. Commission is calculated based on the rates stipulated by the Civil Aviation Administration of China and International Air Transportation Association.
- (vi) MTU, a former joint venture of CSAH, provides comprehensive maintenance services to the Group. MTU became a joint venture of the Group on August 28, 2018.
- (vii) The Group leases certain land and buildings in the PRC from CSAH and its affiliates. The amount represents rental expenses for land and buildings paid or payable to CSAH and its affiliates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **49 Material related party transactions (continued)**

#### **(b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)**

- (viii) China Southern Airlines Group Property Management Co., Ltd., a wholly-owned subsidiary of CSAH, and COHL&CSAH Construction Development Co.,Ltd., a joint venture of CSAH, both provide property management services to the Group.
- (ix) The Group acquires properties from COHL&CSAH Construction Development Co.,Ltd.
- (x) GAMECO, a joint venture of the Group, and Shenyang Northern Aircraft Maintenance Co., Ltd. (“Shenyang Aircraft Maintenance”), a former joint venture of the Group, both provide comprehensive maintenance services and leases maintenance materials to the Group. Shenyang Aircraft Maintenance became a wholly-owned subsidiary of the Group on April 23, 2019.  
The Group also purchases maintenance material from GAMECO.
- (xi) Beijing Aviation Ground Services Co.,Ltd. and Shenyang Konggang Logistic Co., Ltd., associates of the Group provide ground services to the Group.
- (xii) Beijing Airport Inflight Kitchen Co.,Ltd. is an associate of the Group and provides air catering related services to the Group.
- (xiii) SACM, an associate of the Group, provides advertising services to the Group. The Group provides certain media resources to SACM.
- (xiv) Xinjiang Civil Aviation Property Management Ltd., an associate of the Group, provides property management services to the Group.
- (xv) The Group provides repairing service and air catering supplies service to Sichuan Airlines.  
Commission is earned by Sichuan Airlines in connection with the air tickets sold on behalf of the Group.  
In addition, the Group provides pilot training service and ground services to Sichuan Airlines.
- (xvi) The Group imports and sells maintenance materials to GAMECO and MTU, and earns maintenance materials sales and handling income.
- (xvii) The Group provides certain website resources to SA Finance for the sales of air insurance.
- (xviii) The Group provides ground services to Shenyang Konggang Logistic Co.,Ltd. and Sichuan Airlines, which are associates of the Group.
- (xix) The Group provides labor service to Shenyang Aircraft Maintenance, and the charge rates are determined by reference to prevailing market price. In addition, the Group leases certain property and equipment to Shenyang Aircraft Maintenance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### **49 Material related party transactions (continued)**

#### **(b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)**

- (xx) Phoenix Satellite Television Holdings Ltd. (“the Phoenix Group”) was a related party of the Group as the board chairman of the Phoenix Group was appointed as a non-executive director of the Group and resigned on December 20, 2017. The transaction incurred in the year before December 20, 2018 was deemed to be the related party transaction. It provides advertising services to the Group.

In addition, the Group sells tickets to the Phoenix Group on market price.

- (xxi) China Travel Sky Holding Company is a related party of the Group as a key management personnel of the Group was appointed as the director of China Travel Sky Holding Company. It provides computer reservation services.
- (xxii) The chairman of Pearl Aviation Services is the key management personnel of the Company. The Group purchases aviation supplies and canteen services from Pearl Aviation Services.

In December 2019, Pearl Aviation Services became a wholly-owned subsidiary of the Group.

- (xxiii) China Southern Airlines International Finance Leasing Co., Ltd. (“CSA International”), originally a wholly owned subsidiary of CSAH, and became a joint venture of CSAH in 2019, provides aircraft and engines lease services to the Group. Also, the Group disposed aircraft to CSA International.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***49 Material related party transactions (continued)****(c) Balances with CSAH and its affiliates, associates, joint ventures and other related companies of the Group**

Details of amounts due from/to CSAH and its affiliates, associates, joint ventures and other related company of the Group:

	Note	2020 RMB million	2019 RMB million
<b>Receivables:</b>			
CSAH and its affiliates		10	18
Associates		57	35
Joint ventures		18	20
	41(a)	<u>85</u>	<u>73</u>

	Note	2020 RMB million	2019 RMB million
<b>Prepayments of acquisition of long-term assets:</b>			
CSAH and its affiliates		639	160
Associates		495	353
Joint ventures		88	—
	30&41(b)	<u>1,222</u>	<u>513</u>

	Note	2020 RMB million	2019 RMB million
<b>Payables:</b>			
CSAH and its affiliates		225	116
Associates		13	1
Joint ventures		119	53
	41(c)	<u>357</u>	<u>170</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***49 Material related party transactions (continued)****(c) Balances with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)**

	2020 RMB million	2019 RMB million
Accrued expenses:		
CSAH and its affiliates	47	55
Associates	73	169
Joint ventures	1,927	2,092
Other related companies	459	274
	<u>2,506</u>	<u>2,590</u>
Lease liabilities:		
The CSAH and its affiliates	26,789	23,734

Except the lease liabilities, the amounts due from/to CSAH and its affiliates, associates, joint ventures and other related companies of the Group are unsecured, interest-free and have no fixed terms of repayment.

**(d) Loans from and deposits placed with related parties***(i) Loans from related parties*

At December 31, 2020, loans from SA Finance to the Group amounted to RMB1,686 million (December 31, 2019: RMB76 million).

The unsecured loans are repayable as follows:

	2020 RMB million	2019 RMB million
Within 1 year	1,515	23
After 1 year but within 2 years	111	—
After 2 years but within 5 years	60	53
	<u>1,686</u>	<u>76</u>

Interest expense paid on such loans amounted to RMB27 million (2019: RMB9 million) and the interest rates range from 3.00% to 4.28% per annum during the year ended December 31, 2020 (2019: 4.28% to 4.35%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 49 Material related party transactions (continued)

#### (d) Loans from and deposits placed with related parties (continued)

##### (ii) Entrusted loans from CSAH

In 2019, CSAH, SA Finance and the Group entered into an entrusted loan agreement, pursuant to which, CSAH, as the lender, entrusted SA Finance to lend RMB5,520 million. These loans were settled in May and June 2020. The interest rate is 90% of benchmark interest rate stipulated by PBOC per annum.

The unsecured entrusted loans are repayable as follows:

	Note	2020 RMB million	2019 RMB million
Within 1 year	35(e)	—	4,720
After 1 year but within 2 years		—	—
After 2 years but within 5 years	35(e)	—	800
		<u>—</u>	<u>5,520</u>

Interest expense paid on such loans amounted to RMB89 million (2019: RMB86 million) at interest rates 3.92% per annum during the year ended December 31, 2020 (2019: 3.92% per annum).

##### (iii) Convertible bonds subscribed by CSAH

In October 2020, the Group issued a total of 160,000,000 A share convertible bonds with par value of RMB100 each at par (Note 27 (iii)), among which, CSAH subscribed for 101,027,580 A share convertible bonds.

##### (iv) Deposits placed with SA Finance

As at December 31, 2020, the Group's deposits with SA Finance are presented in the table below. The applicable interest rates are determined in accordance with the rates published by the PBOC.

	2020 RMB million	2019 RMB million
Deposits placed with SA Finance	<u>9,092</u>	<u>711</u>

Interest income received on such deposits amounted to RMB91 million during the year ended December 31, 2020 (2019: RMB40 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 50 Employee benefits plan

#### (a) Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organized separately by the PRC municipal and provincial governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 14% to 16% (2019: 12% to 16%; 2018: 13% to 20%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labor and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of the Group are assumed by these schemes. The Group, at its sole discretion, had made certain welfare subsidy payments to these retirees.

In 2014, the Company and its major subsidiaries joined a new defined contribution retirement scheme (“Pension Scheme”) that was implemented by CSAH. The annual contribution to the Pension Scheme is based on a fixed specified percentage of prior year’s annual wage. There will be no further obligation beyond the annual contribution according to the Pension Scheme. The total contribution into the Pension Scheme in 2020 was approximately RMB1,043 million (2019: RMB985 million; 2018: RMB598 million).

#### (b) Housing benefits

The Group contributes on a monthly basis to housing funds organized 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.

The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are charged to income statement.

### 51 Supplementary information to the consolidated cash flow statement

#### Non-cash transactions

##### (i) Introducing of aircraft

During the year ended December 31, 2020, aircraft introduced under leases amounted to RMB11,335 million (2019: aircraft acquired under leases RMB30,351 million, 2018: aircraft acquired under leases RMB13,290 million).

##### (ii) Acquisition of a joint venture through issuance of new shares

During the year ended December 31, 2018, CSAH subscribed the new A shares of the Company with a cash consideration and the equity interests held in MTU, representing 50% of the total equity interests of MTU. The related non-cash equity transaction of financing activities amounted to RMB1,741 million.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Renminbi unless otherwise indicated)*

### 52 Contingent liabilities

- (a) The Group leased certain properties and buildings from CSAH which were located in Guangzhou, Wuhan, Haikou, etc. Although such properties and buildings were used by CSAH before being leased to the Group, as known to the Group, such properties and buildings lack adequate documentation evidencing CSAH's rights thereto. Pursuant to the indemnification agreement dated May 22, 1997 entered into between the Group and CSAH, CSAH has agreed to indemnify the Group against any loss or damage arising from any challenge of the Group's right to use the aforementioned properties and buildings.
- (b) The Group entered into certain agreements with CSAH in prior years to acquire certain land use right and buildings from CSAH. The change of business registration of such land use right and buildings are still in progress. CSAH issued letters of commitment to the Company, committing to indemnify the Group against any claims from third parties to the Group, or any loss or damage in the Group's operation activities due to lack adequate documentation of the certain properties and buildings, without recourse to the Group.
- (c) The Company and its subsidiary, Xiamen Airlines, entered into agreements with certain pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB696 million (December 31, 2019: RMB696 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2020, total personal bank loans of RMB221 million (December 31, 2019: RMB275 million), under these guarantees, were drawn down from the banks. During the year, no payment has been made by the Group (2019: Nil) due to the default of payments of certain pilot trainees.

### 53 Comparative figures

The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(b).

### 54 Immediate and ultimate controlling party

As at December 31, 2020, the Directors of the Company consider the immediate parent and ultimate controlling party of the Group to be CSAH, a state-owned enterprise established in the PRC.

### 55 Approval of financial statements

The financial statements were approved by the Board of Directors on April 28, 2021.

### 56 Impacts of COVID-19 pandemic

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and had an adverse impact on the Group's business operation and operating revenue in 2020.

The Group has been closely monitoring the impact of the developments on the Group's business and has been proactively adjusting its business strategies. These strategies include: making adjustments to the scheduling of domestic and international routes and flights, according to the measures taken by related countries and regions on epidemic prevention and control; actively developing freight transport business and overall improving the utilization rate of freighters. Based on the Group's actual performance in 2020, adjusted operating measures put in place and unutilized available banking facilities (Note 4(a)), etc., the Directors of the Company have carried out a review of the cash flow forecast of the Group for the eighteen months period from January 1, 2021. Based on such forecast, the Directors of the Company believe that the Group has adequate funding to meet the working capital and capital expenditure requirements and repay the borrowings due during the forecast period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***57 Directors' and supervisors' emoluments**

The remuneration of every director and supervisor for the year ended December 31, 2020 is set out below:

Name	Directors' fees RMB '000	Salaries, wages and welfare RMB '000	Housing allowance RMB '000	Employer's contribution to a retirement benefit scheme RMB '000	Total RMB '000
<b>Executive directors</b>					
Wang Chang Shun (Note (i) &(vii))	-	-	-	-	-
Ma Xu Lun (Note (i)&(iii))	-	-	-	-	-
Han Wen Sheng (Note (i)&(iii))	-	-	-	-	-
Zhang Zi Fang (Note (i)&(iv))	-	-	-	-	-
<b>Supervisors</b>					
Pan Fu (Note (i)&(iv))	-	-	-	-	-
Li Jia Shi (Note (ii))	-	-	-	-	-
Mao Juan	-	706	-	126	832
Lin Xiao Chun (Note (iii))	-	633	-	125	758
<b>Independent non-executive directors</b>					
Tan Jin Song	150	-	-	-	150
Jiao Shu Ge	150	-	-	-	150
Zheng Fan (Note (vi))	60	-	-	-	60
Gu Hui Zhong (Note (vi))	60	-	-	-	60

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**57 Directors' and supervisors' emoluments (continued)**

The remuneration of every director and supervisor for the year ended December 31, 2019 is set out below:

Name	Directors' fees RMB '000	Salaries, wages and welfare RMB '000	Housing allowance RMB '000	Employer's contribution to a retirement benefit scheme RMB '000	Total RMB '000
<b>Executive directors</b>					
Wang Chang Shun (Note (i) &(vii))	—	—	—	—	—
Ma Xu Lun (Note (i)&(iii))	—	—	—	—	—
Han Wen Sheng (Note (i)&(iii))	—	—	—	—	—
Zhang Zi Fang (Note (i)&(iv))	—	—	—	—	—
<b>Supervisors</b>					
Pan Fu (Note (i)&(iv))	—	—	—	—	—
Li Jia Shi (Note (ii))	—	—	—	—	—
Mao Juan	—	712	—	129	841
Lin Xiao Chun (Note (iii))	—	367	—	90	457
<b>Independent non-executive directors</b>					
Tan Jin Song	150	—	—	—	150
Jiao Shu Ge	150	—	—	—	150
Zheng Fan (Note (vi))	60	—	—	—	60
Gu Hui Zhong (Note (vi))	60	—	—	—	60

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Renminbi unless otherwise indicated)*

**57 Directors' and supervisors' emoluments (continued)**

The remuneration of every director and supervisor for the year ended December 31, 2018 is set out below:

Name	Directors'	Salaries,	Housing	Employer's	Total
	fees	wages	allowance	contribution	
	RMB	and	RMB	to a	RMB
	'000	welfare	'000	retirement	'000
		RMB		benefit	
		'000		scheme	
				RMB	
				'000	
<b>Executive directors</b>					
Wang Chang Shun (Note (i) & (vii))	—	—	—	—	—
Tan Wan Geng (Note (i) & (v))	—	—	—	—	—
Zhang Zi Fang (Note (i)&(iv))	—	—	—	—	—
<b>Supervisors</b>					
Pan Fu (Note (i) & (iv))	—	—	—	—	—
Li Jia Shi (Note (ii))	—	84	—	12	96
Mao Juan	—	658	—	124	782
<b>Independent non-executive directors</b>					
Tan Jin Song	150	—	—	—	150
Jiao Shu Ge	150	—	—	—	150
Zheng Fan (Note (vi))	—	—	—	—	—
Gu Hui Zhong (Note (vi))	60	—	—	—	60

Notes:

- (i) These directors or supervisors did not receive any remuneration for their services in the capacity of the directors or supervisors of the Company. They also held management positions in CSAH and their salaries were borne by CSAH.
- (ii) Mr. Li Jia Shi did not receive any remuneration for his service in the capacity of the supervisor of the Company since February 1, 2018. He also held management position in CSAH and his salary was borne by CSAH.
- (iii) Appointed on May 8, 2019.
- (iv) Resigned on May 8, 2019.
- (v) Mr. Tan Wan Geng was an executive director of the Company before November 30, 2018, and resigned from the Company on November 30, 2018.
- (vi) Mr. Zheng Fan and Mr. Gu Hui Zhong receive remuneration in accordance with the relevant provisions of the PRC.
- (vii) Mr. Wang Chang Shun retired on December 21, 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

### 58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, and new standards which are not yet effective for the year ended December 31, 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	January 1, 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	January 1, 2022
Amendments to IAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle	January 1, 2022

The Group is in the process of making an assessment of what the impact of these developments 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 consolidated financial statements.



**Articles of Association of**

**China Southern Airlines Company Limited**

*(The Articles of Association was originally drafted in Chinese and the English translation is for your reference only. In case of any inconsistencies between the Chinese and the English version, the Chinese version shall prevail.)*

**Articles of Association of  
China Southern Airlines Company Limited**

(These Articles of Association were approved by special resolutions at the extraordinary general meetings held on 18 April 1997 and 22 May 1997. They were successively amended at the annual general meetings held on 15 June 1998 and 15 June 1999, the extraordinary general meetings held on 26 March 2002 and 21 May 2002, and the annual general meeting held on 13 May 2003. They were further amended at the board meeting pursuant to the authorization of the shareholders' general meeting on 17 July 2003, the annual general meetings held on 16 June 2004 and 15 June 2005, the extraordinary general meetings held on 28 December 2006, the annual general meeting held on 28 June 2007, the annual general meeting held on 25 June 2008, the extraordinary general meeting held on 29 December 2008, the extraordinary general meeting held on 26 February 2009, the annual general meeting held on 30 June 2009, the extraordinary general meeting held on 30 April 2010, the annual general meeting held on 31 May 2012, the extraordinary general meeting held on 24 January 2013, the extraordinary general meeting held on 26 December 2013, the annual general meeting held on 27 May 2016, the extraordinary general meeting held on 8 November 2017, the annual general meeting held on 15 June 2018 and the extraordinary general meeting held on 27 December 2019.)

**CHAPTER 1 GENERAL PROVISIONS**

- Article 1** These Articles of Association are formulated in accordance with “The Company Law of the People’s Republic of China” (hereinafter referred to as the “Company Law”), “The Securities Law of the People’s Republic of China” (hereinafter referred to as the “Securities Law”) and other relevant provisions, with an aim to protect the legitimate rights and interests of the Company and its shareholders and creditors, and to standardize the organization and activities of the Company.
- Article 2** The Company is a joint stock limited company established in accordance with the Company Law, “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Joint Stock Limited Companies” (hereinafter referred to as the “Special Regulations”) and other relevant laws and administrative regulations of the State. The legitimate rights and interests of the Company and its shareholders are under the jurisdiction of and protected by the PRC laws, regulations and other relevant provisions of the Government.

The Company was established by way of promotion with the approval from the State Commission for Restructuring the Economic System of the PRC on 31 December 1994 as evidenced by the approval document 【1994】 No. 139. It was registered with the State Administration Bureau of Industry and Commerce of the PRC and obtained its business license on 25 March 1995. Pursuant to the approval document Wai Jing Mao Zi Yi Han 【2003】 No. 273 from the Foreign Trade and Economic Cooperation Ministry of the PRC, the Company was allowed to transform into a perpetual foreign investment joint stock limited company on 13 March 2003. The Promoter of the Company is China Southern Air Holding Company Limited (中国南方航空集团有限公司).

**Article 3** Under the approval from the competent securities authority of the State Council Zhen Wei Fa [1997] No. 33, the Company was listed on the Stock Exchange of Hong Kong Limited and New York Stock Exchange respectively in July 1997 with an issuance of a total of 1,174,178,000 H shares.

The Company's proposal for issuing 1,000,000,000 A shares with a par value of RMB1.00 each was passed at the extraordinary general meeting held on 21 May 2002, and approved by the document (2003) No. 70 issued by the China Securities Regulatory Commission in 2003. In July 2003, 1,000,000,000 A shares of the Company's with a par value of RMB1.00 each were successfully issued and listed on Shanghai Stock Exchange.

The Company's proposal for the bonus share issues by conversion of capital reserve on the basis of 5 new shares for 10 existing shares was passed at the 2007 annual general meeting held on 25 June 2008 and was approved by the Ministry of Commerce (Shang Zi Pi [2008] No. 1094) on 14 August 2008.

The non-public issue of 721,150,000 A Shares and non-public issue of 721,150,000 H Shares were passed at the 1st 2009 Extraordinary General Meeting, 1st 2009 A Shares Class Meeting and 1st 2009 H Shares Class Meeting of the Company held on 26 February 2009 and was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2009] No. 541) on 18 June 2009 and (Zheng Jian Xu Ke [2009] No. 449) on 2 June 2009 respectively. 721,150,000 A Shares were successfully issued and listed on the Shanghai Stock Exchange on 20 August 2009 and 721,150,000 H Shares were successfully issued and listed on the Hong Kong Stock Exchange on 21 August 2009.

The non-public issue of not more than 1,766,780,000 A Shares and non-public issue of 312,500,000 H Shares were passed at the 1st 2010 Extraordinary General Meeting, 1st 2010 A Shares Class Meeting and 1st 2010 H Shares Class Meeting of the Company held on 30 April 2010 and was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2010] No. 1215) on 1 September 2010 and (Zheng Jian Xu Ke [2010] No. 1243) on 9 September 2010 respectively. 1,501,500,000 A Shares were successfully issued and listed on the Shanghai Stock Exchange on 29 October 2010 and 312,500,000 H Shares were successfully issued and listed on the Hong Kong Stock Exchange on 1 November 2010.



The Resolution on the Granting of General Mandate to the Board to issue Shares was considered and passed at the Company's 2015 annual general meeting convened on 27 May 2016, and the Board was granted an unconditional general mandate to issue additional H shares not exceeding 20% of the aggregate nominal value of H shares in issue on the date of passing such resolution; and the non-public issuance of 270,606,272 H shares by the Company to American Airlines, Inc. were considered and passed at the extraordinary meeting of the 7th session of the Board convened on 27 March 2017 and was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2017]1350) on 26 July 2017. 270,606,272 H Shares were successfully issued and listed on the Hong Kong Stock Exchange on 10 August 2017.

The non-public issue of not more than 1,800,000,000 A Shares and non-public issue of not more than 600,925,925 H Shares were passed at the 1st 2017 Extraordinary General Meeting, 1st 2017 A Shares Class Meeting and 1st 2017 H Shares Class Meeting of the Company held on 8 November 2017 and was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2018] No. 431) on 12 March 2018 and (Zheng Jian Xu Ke [2018] No. 1235) on 2 August 2018 respectively. 600,925,925 H Shares were successfully issued and listed on the Hong Kong Stock Exchange on 11 September 2018 and 1,578,073,089 A Shares were successfully issued and listed on the Shanghai Stock Exchange on 26 September 2018.

The non-public issue of not more than 2,453,434,457 A Shares and non-public issue of not more than 613,358,614 H Shares were passed at the 2nd 2019 Extraordinary General Meeting, the 1st 2019 A Shares Class Meeting and the 1st 2019 H Shares Class Meeting of the Company held on 27 December 2019 and were approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2020] No. 547) on 8 April 2020 and (Zheng Jian Xu Ke [2020] No. 918) on 27 May 2020, respectively. 608,695,652 H Shares were successfully issued and listed on the Hong Kong Stock Exchange on 15 April 2020 and 2,453,434,457 A Shares were successfully issued and listed on the Shanghai Stock Exchange on 17 June 2020.

**Article 4** The registered name of the Company:

Chinese:中國南方航空股份有限公司

English: CHINA SOUTHERN AIRLINES COMPANY LIMITED

**Article 5** Address of the Company: Unit 301, 3/F, Office Tower

Guanhao Science Park Phase I, 12 Yuyan Street

Huangpu District, Guangzhou, Guangdong Province

Zip code: 510530

- Article 6** The chairman of the Board of Directors of the Company shall be the legal representative of the Company.
- Article 7** The registered capital of the Company is RMB 15,329,302,395.
- Article 8** The Company is a perpetual joint stock limited company.
- Article 9** The Company may amend these Articles of Association pursuant to the Company Law, the Special Regulations, “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (hereinafter referred to as the “Mandatory Provisions”), “Guidelines for Listed Companies” and other relevant laws and administrative regulations of the PRC.
- Article 10** The entire assets of the Company is divided into equal shares. The rights and obligations in respect of the Company enjoyed and assumed by shareholders of the Company shall be limited to the extent of the amount payable on subscription of shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.
- Article 11** These Articles of Association became effective on the date of establishment of the Company. The registration formalities of the Original Articles of Association with China’s State Administration Bureau of Industry and Commerce have been completed.
- The Company shall, within the period stipulated by laws and regulations, process the registration of changing of mandatory registered items due to the amendment to the Original Articles of Association.
- Article 12** From the date of these Articles of Association becoming effective, these Articles of Association constitute a legally binding document regulating the Company’s organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders.
- Article 13** These Articles of Association are binding on the Company and its shareholders, directors, supervisors, president and other senior administrative officers of the Company; all of whom are entitled to claim rights concerning the affairs of the Company in accordance with these Articles of Association.
- These Articles of Association are actionable by a shareholder against the Company and vice versa, by shareholders against each other, by a shareholder against the directors, supervisors, president and other senior administrative officers of the Company and by the company against the directors, supervisors, president and other senior administrative officers of the Company in respect of rights and obligations concerning the affairs of the Company arising out of these Articles of Association.

The actions referred to in the preceding paragraph include court proceedings and arbitration proceedings.

- Article 14** The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to the investee company. Unless otherwise provided by laws, the Company shall not become an investor that assumes joint guarantee liability of the debt of any investee company.
- Article 15** On condition of compliance with the applicable laws and regulations of the PRC, the Company has the power to raise and borrow money, which power includes but not limited to the issue of debentures, the charging or mortgage of part or whole of the Company's business or properties and other rights permitted by the PRC laws and administrative regulations.
- Article 16** According to the Constitution of the Communist Party of China, the Company shall establish an organization of the Communist Party of China. The Party committee shall perform the core leading and political functions, control the directions, manage the situation and ensure the implementation. The Company shall set up the working organs of the Party, which shall be equipped with sufficient personnel to handle Party affairs and provided with sufficient funds to operate the Party organization.
- Article 17** For the purpose of the Articles of Association, other senior management of the Company refer to the Executive Vice President, Chief Financial Officer, Chief Pilot, COO Flight Safety, Chief Information Officer, Chief Economist, Chief Legal Adviser, Chief Engineer, COO Flight Operations, Company Secretary and other senior management appointed by the Board of Directors.

## CHAPTER 2 OBJECTIVES AND SCOPE OF BUSINESS

- Article 18** The business objectives of the Company are: (I) to absorb domestic and foreign capital; (II) to assist in developing the aviation industry of China; (III) to promote the development of the national economy of China; (IV) to utilize corporate incentive mechanisms of privatization; (V) to draw on the advanced management expertise of other domestic and foreign companies; (VI) to continuously improve the management of the Company; (VII) to enhance the market competitiveness of the Company; (VIII) to generate economic and social benefits for the Company; and (IX) to generate steady income for the Company's shareholders.

**Article 19** The business activities of the Company shall fall within the scope of operation approved by relevant competent authorities.

The scope of business of the Company covers: (1) provision of scheduled and non-scheduled domestic, regional and international air transportation services for passengers, cargo, mail and luggage; (2) undertaking general aviation services; (3) provision of aircraft repair and maintenance services; (4) acting as agent for other domestic and international airlines; (5) provision of air catering services; (6) engaging in other airline or airline-related business, (limited to insurance agency business personal accident insurance); (7) provision of airline ground services; (8) aviation training; (9) asset leasing services; (10) project management and technical consultancy services; (11) sales of aviation equipment; (12) travel agency business; (13) merchandise retail and wholesale; all subject to approval by company registration authorities.

**Article 20** The Company may, according to its ability of development, and upon the approval by special resolution adopted by the shareholders' general meeting and by the relevant state government authority, adjust its scope of business or investment orientation and method, etc.

**Article 21** The Company may, upon the approval by the relevant authorities, establish its subsidiaries, branches and offices (whether wholly owned or otherwise) in China and other countries or regions to cope with its business development and to promote the Company's expansion.

### **CHAPTER 3 SHARES AND REGISTERED CAPITAL**

**Article 22** The shares of the Company are evidenced by share certificates.

**Article 23** There must at all times be ordinary shares in the Company. Subject to the approval from the companies approving department authorized by the State Council, the Company may create other classes of shares according to its requirements.

**Article 24** The shares of the Company are issued on an open, fair and equitable basis. Shares of the same class shall rank pari passu in all respects among each other.

For the same class of shares issued at the same time, the conditions and price of issue for each share shall be the same. For shares subscribed for by any entity or individual, each share shall have the same price.

**Article 25** The shares issued by the Company shall have a par value of RMB1 per share. The RMB referred to in the preceding paragraph is the legal currency of the PRC.

**Article 26** The shares issued by the Company are centrally maintained in share registrar located where the shares are listed according to the specific class of the shares.

**Article 27** Subject to the approval from the securities authority of the State Council, the Company may issue and offer shares to domestic investors or foreign investors for subscription.

The aforesaid overseas investors shall mean the investors from foreign countries and the regions of Hong Kong, Macau and Taiwan who subscribe for the shares issued by the Company; domestic investors shall mean the investors within the PRC other than those investors from the aforesaid regions who subscribed for the shares issued by the Company.

**Article 28** Shares issued by the Company to domestic investors for subscription in RMB shall be referred to as “Domestic Shares”. Shares issued by the Company to foreign investors for subscription in foreign currencies shall be referred to as “Foreign Shares”. Foreign Shares which are listed overseas are called “Overseas Listed Foreign Shares”.

The foreign currencies referred to in the preceding paragraph mean the legal currencies (apart from RMB) of other countries or regions which are recognized by the foreign exchange control authority of the State and can be used to pay the Company for the share price.

**Article 29** Domestic Shares issued by the Company shall be called “A Shares”. Overseas Listed Foreign Shares issued by the Company and listed in Hong Kong shall be called “H Shares”. H Shares are shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the par value of which is denominated in RMB and which are subscribed for and traded in Hong Kong dollars. H Shares can also be listed on a stock exchange in the United States of America in the form of American depositary receipts. Shares issued by the Company, including Domestic Shares and Foreign Shares, are all ordinary shares.

**Article 30** In accordance with the approval granted by the Securities Commission of the State Council, after the completion of the initial issue of A Shares, the total issued shares of the Company was 4,374,178,000 ordinary shares, of which (a) 2,200,000,000 A Shares (state shares) were issued upon the establishment of the Company and were all subscribed for by the promoter of the Company; (b) 1,174,178,000 H Shares were issued to foreign investors in connection with the first increase of capital of the Company, including shares issued pursuant to the exercise of the over-allotment option and (c) 1,000,000,000 A Shares (public shares) were issued to domestic investors in connection with the initial issue of A Shares.

The Company had conducted a bonus share issue of 2,187,089,000 new shares, comprising 1,600,000,000 A Shares and 587,089,000 H Shares, by way of conversion of capital reserve in 2008.

The Company had conducted non-public issue of 721,150,000 A Shares and 721,150,000 H Shares, of which the said A Shares were all subscribed by the promoter of the Company and the said H Shares were all subscribed by Nan Lung Holding Limited.

The Company had conducted non-public issue of 1,501,500,000 A Shares and 312,500,000 H Shares, of which 123,900,000 A Shares were subscribed by the promoter of the Company, 1,377,000,000 A Shares were subscribed by eight investors and the said H Shares were all subscribed by Nan Lung Holding Limited.

The Company had conducted non-public issue of 270,606,272 H Shares in 2017, all of which were subscribed by American Airlines, Inc..

The Company had conducted non-public issue of 1,578,073,089 A Shares and 600,925,925 H Shares in 2018, of which 489,202,658 A Shares were subscribed by the promoter of the Company, 1,088,870,431 A Shares were subscribed by six investors and the said H Shares were all subscribed by Nan Lung Holding Limited.

The Company had conducted non-public issue of 608,695,652 H Shares and 2,453,434,457 A Shares in 2020, the said H Shares were all subscribed by Nan Lung Holding Limited and the said A Shares were all subscribed by the promoter of the Company.

After the above issues of H Shares and A Shares, the current share capital structure of the Company is: (a) 6,981,865,780 A Shares held by the promoter, representing 45.55% of the total share capital; (b) 4,072,291,766 A Shares held by domestic investors, representing 26.56% of the total share capital; and (c) 4,275,144,849 H Shares held by foreign investors, representing 27.89% of the total share capital.

**Article 31** Upon approval by the securities governing authority of the State Council of the proposal to issue Overseas Listed Foreign Shares and Domestic Shares, the Company's Board of Directors may make separate implementing arrangements for their issuance.

The Company's proposal to issue Overseas Listed Foreign Shares and Domestic Shares pursuant to the preceding paragraph may be implemented within fifteen months from the date of the approval from the securities governing authority of the State Council.

**Article 32** In respect of the total number of shares as stated in a shares issuing proposal, where the Company shall separately issue Overseas Listed Foreign Shares and Domestic Shares, these respective shares shall be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for at their offerings due to some special circumstances, then subject to the approval from the securities governing authority of the State Council the shares may be issued by installments.

**Article 33** The Company and its subsidiaries (including the affiliated companies of the Company) shall not provide any financial assistance in the forms of gift, advance, guarantee, compensation or loan to a person who is acquiring or is proposing to acquire shares in the Company.

**Article 34** Unless otherwise provided by laws and administrative regulations, shares in the Company are freely transferable and are not subject to any lien.

#### **CHAPTER 4 INCREASE AND DECREASE IN CAPITAL AND REPURCHASE OF SHARES**

**Article 35** Subject to the relevant laws and regulations and these Articles of Association and the passing of separate resolutions at the shareholders' general meeting, the Company may increase its capital in the following ways to meet the needs of operations and business expansion:

- (1) Making public offer to unspecific investors;
- (2) Making non-public offer;
- (3) Distributing new shares to existing shareholders;
- (4) Converting the capital common reserve fund into capital;
- (5) Other ways permitted by laws and administrative regulations.

Increase in capital of the Company by way of new issue shall be proceeded in accordance with the PRC laws and administrative regulations, and subject to the approval as required by these Articles of Association.

**Article 36** The Company may reduce its registered capital pursuant to the provisions of these Articles of Association. Reduction of registered capital of the Company shall be proceeded in accordance with the Company Law and other relevant regulations as well as these Articles of Association.

**Article 37** When the Company reduces its registered capital, it must draw up a balance sheet and an inventory of assets.

The Company shall notify its creditors within ten days from the date of the Company's resolution for reduction of capital and shall publish a notice in a newspaper at least three times within thirty days from the date of such resolution. A creditor has the right within thirty days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within forty five days from the date of the first public notice, to require the Company to repay its debts or provide a corresponding guarantee for such debt.

The Company's registered capital after reduction shall not be less than the statutory minimum amount.

**Article 38** The Company may, in accordance with laws, administrative regulations, departmental constitution documents and these Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) Cancellation of shares for the reduction of its capital;
- (2) Merging with another company that holds shares in the Company;
- (3) The Company awarding its employees with shares;
- (4) Where the shareholders disagree on the resolutions passed by the shareholders' general meeting on the merger or division of the Company so much that they request the company to acquire their shares;
- (5) Other circumstances permitted by laws and administrative regulations.

Save for the above circumstances, the Company shall not perform any act of repurchase of its own shares otherwise.



- Article 39** The Company may, with the approval of the relevant State governing authority for repurchasing its shares, conduct the repurchase in one of the following ways:
- (1) Making a pro rata general offer of repurchase to all its shareholders;
  - (2) Repurchase through public dealing on a stock exchange;
  - (3) Repurchase by an off-market agreement outside a stock exchange.
- Article 40** Where the Company repurchases its shares by an off-market agreement outside a stock exchange, the prior sanction of shareholders shall be obtained in accordance with these Articles of Association. The Company may release or vary a contract so entered into by the Company or waive its rights thereunder with the prior approval of shareholders obtained in the same manner.
- A contract to repurchase shares referred to in the preceding paragraph includes but not limited to an agreement to become obliged to repurchase or acquire the right to repurchase shares of the Company.
- A contract for the Company to repurchase its shares or any rights thereunder is not assignable.
- Article 41** Where the Company repurchases its own shares due to reasons as set out in clauses (1) to (3) of Article 38, it shall obtain the prior approval of the shareholders by a resolution at a shareholders' general meeting. After the Company repurchases its shares pursuant to Article 38, the shares in respect of the circumstances described in clause (1) shall be cancelled within ten days from the day of purchase; and those in respect of the circumstances described in clauses (2) and (4) shall be transferred or cancelled within six months. The Company shall deduct the carrying amount of the shares cancelled from its share capital, and shall process registration of changing in registered capital with the original registrar.
- The maximum number of shares repurchased by the Company pursuant to clause (3) of Article 38 shall not exceed 5% of its total issued shares; and repurchase shall be fund out of the profit after tax of the Company; the shares purchased shall be transferred to the employees within one year.
- Article 42** Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares:
- (1) Where the Company repurchases shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a fresh issue of shares made for that purpose;

- (2) Where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
1. If the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
  2. If the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased or the current amount (including the premiums on the fresh issue) of the Company's premium account (or capital common reserve fund account) at the time of the repurchase;
- (3) Payment by the Company in consideration of the following shall be made out of the Company's distributable profits:
1. Acquisition of rights to repurchase shares of the Company;
  2. Variation of any contract to repurchase shares of the Company;
  3. Release of any of the Company's obligation under any contract to repurchase shares of the Company;
- (4) After the Company's registered capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for paying up the par-value portion of the shares repurchased shall be transferred to the Company's premium account (or capital common reserve fund account).

**CHAPTER 5 FINANCIAL ASSISTANCE FOR  
ACQUISITION OF COMPANY SHARES**

**Article 43** The Company and its subsidiaries shall not, by any means and at any time, provide any kind of financial assistance to any person who is acquiring or is proposing to acquire shares in the Company. The said acquirer of shares of the Company includes a person who directly or indirectly incurs any obligations due to the acquisition of shares in the Company (the “obligor”).

The Company and its subsidiaries shall not, by any means and at any time, provide financial assistance to the obligor as referred to in the preceding paragraph for the purpose of reducing or discharging the obligations assumed by that person.

This Article shall not apply to the circumstances specified in Article 45 of this Chapter.

**Article 44** For the purpose of this Chapter, “financial assistance” includes but not limited to the following meanings:

- (1) Gift;
- (2) Guarantee (including the assumption of liability or provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation in respect of the Company’s own default) or release or waiver of any rights;
- (3) Provision of loan or conclusion of any other contract under which the obligations of the Company are to be fulfilled before the obligations of another party, or the novation of, or the assignment of rights arising under, such loan or contract;
- (4) Any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

For the purpose of this Chapter, “incurring any obligations” includes the incurring of obligations by the changing of the obligor’s financial position by way of contract or the making of arrangement (whether enforceable or not, and whether made on his own account or with any other persons), or by any other means.

**Article 45** The following activities shall not be deemed to be prohibited by Article 43 of this chapter:

- (1) The provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of giving the financial assistance is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;
- (2) The lawful distribution of the Company's assets by way of dividend;
- (3) The allotment of bonus shares as dividends;
- (4) A reduction of registered capital, a repurchase of shares of the Company or a reorganization of the share capital structure of the Company effected in accordance with these Articles of Association;
- (5) The lending of money by the Company within the scope and in the ordinary course of its business, provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company;
- (6) The provision of money by the Company for contributions to staff and workers' shares schemes, provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company.

## **CHAPTER 6 SHARE TRANSFER**

**Article 46** The Shares of the Company can be lawfully transferred.

**Article 47** The Company shall not accept the Company's share certificates as the subject of pledges.

**Article 48** The Company's directors, supervisors, president and other senior administrative officers shall periodically declare to the Company the number of shares they hold in the Company during their term of office. They may transfer their shares during the term of their office or after their departure from office in accordance with the requirements of the laws and the listing rules of the place of the stock exchange on which the Company's shares are listed.

**Article 49** Shares of the Company held by the promoters shall not be transferred within one year commencing from the establishment of the Company. Shares issued prior to the public offer of shares of the Company shall not be transferred within one year from the date when the shares were listed on a stock exchange.

Directors, supervisors and senior administrative officers of the Company shall periodically report to the Company shares of the Company held by them and any changes thereof, and shall not transfer more than 25% of the shares held by them during their term of office, while shares of the Company held by them must not be transferred within one year commencing from the date on which the shares of the Company were listed. The aforesaid persons shall not transfer the shares of the Company held by them within six months commencing from the termination of their service.

Any gains from any sales of shares of the Company by any director, supervisor and senior administrative officer of the Company within six months after the share are bought, or any gains from any purchase of shares of the Company by any of the aforesaid parties within six months after the share are sold shall be disgorged and paid to the Company and the Board of Directors shall recover such gains from the abovementioned parties. In case the Board of Directors failed to perform in compliance with this provision, the responsible directors shall be jointly liable for such default.

If the Board of Directors fails to comply with the aforesaid provision, the shareholders may demand the Board of Directors to implement such provision within thirty days. Where the Board of Directors fails to implement such provision within the aforesaid period, the shareholders may initiate proceedings in the People's Court in their own names to protect the interest of the Company.

## **CHAPTER 7 SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS**

**Article 50** Share certificates of the Company shall be in registered form.

Share certificates of the Company shall contain the following major particulars:

- (1) Name of the Company;
- (2) Date of incorporation of the Company;
- (3) Class of the shares, nominal value and number of shares represented;
- (4) Serial number of the share certificate;
- (5) Other items to be contained as required by the Company Law, the Special Regulations;

(6) Other items to be contained as required by the stock exchange on which the shares of the Company are listed.

**Article 51** Share certificates of the Company shall be signed by the Chairman of the Company's Board of Directors. Where the stock exchanges on which the Company's shares are listed require other senior administrative officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior administrative officer(s). The share certificates shall take effect after being sealed or printed with the seal of the Company. The share certificates shall only be sealed with the Company's seal under the authorization of the Board of Directors. The signatures of the Chairman of the Board of Directors or other senior administrative officer(s) of the Company may be printed in mechanical form.

**Article 52** The Company shall keep a register of its shareholders and enter in the register the following particulars:

- (1) The name (title) and address (residence), the occupation or nature of each shareholder;
- (2) The class and quantity of shares held by each shareholder;
- (3) The amount paid or payable on the shares of each shareholder;
- (4) The share certificate numbers of the shares held by each shareholder;
- (5) The date on which each person was entered in the register as a shareholder;
- (6) The date on which any shareholder ceased to be a shareholder.

Unless evidence to the contrary is shown, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

**Article 53** The Company may, in accordance with the mutual understanding and agreements between the securities governing authority of the State Council and overseas securities regulatory organisations, maintain the register of shareholders of Overseas Listed Foreign Shares overseas and appoint overseas agent(s) to manage such share register. The original share register for holders of Overseas Listed Foreign Shares listed in Hong Kong shall be maintained in Hong Kong.

A duplicate of the share register for holders of Overseas Listed Foreign Shares shall be maintained at the Company's address. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register.

If there is any inconsistency between the original and the duplicate of the share register for holders of Overseas Listed Foreign Shares, the original shall prevail.

**Article 54** The Company shall have a complete register of shareholders which shall comprise the following:

- (1) A part of the shareholders' register maintained at the Company's address other than those parts mentioned in clauses (2) and (3) of this Article;
- (2) A part of the shareholders' register in respect of the holders of Overseas Listed Foreign Shares of the Company maintained in the place of the overseas stock exchange on which the shares are listed; and
- (3) Any other parts of the shareholders' register maintained at such other places as the Board of Directors may consider necessary for the purpose of listing the shares of the Company.

**Article 55** Different parts of the shareholders' register shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

The alteration and rectification of each part of the shareholders' register shall be carried out in accordance with the laws of the place where the register is maintained.

All the fully paid-up H Shares can be freely transferred in accordance with these Articles of Association. However, the Board of Directors may refuse to recognize any instrument of transfer without giving any reason, unless:

- (1) A fee (for each instrument of transfer) of two dollars and fifty cents Hong Kong dollars or any higher fee as agreed by the Stock Exchange has been paid to the Company for registration of any instrument of transfer or other document which is related to or will affect ownership of or change of ownership of the shares;
- (2) The instrument of transfer only involves H Shares;
- (3) The stamp duty chargeable on the instrument of transfer has been paid;
- (4) The relevant share certificate and upon the reasonable request of the Board of Directors any evidence in relation to the right of the transferor to transfer the shares have been submitted;

(5) If it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four;

(6) The Company does not have any lien on the relevant shares.

If the Company refuses to register any transfer of shares, the Company shall within two months of the formal application for the transfer provide the transferor and the transferee with a notice of refusal to register such transfer.

**Article 56** No changes in the shareholders' register due to the transfer of shares may be made within thirty days before the date of a shareholders' general meeting or within five days before the record date for the Company's distribution of dividends.

**Article 57** Where the Company decides to convene a shareholders' general meeting, distribute dividends, liquidate or carry out other activities which would require the determination of shareholdings, the Board of Directors shall fix a record date for the purpose of determining shareholdings, at the end of which the shareholders in the register shall be shareholders entitled to relevant interests.

**Article 58** Any person aggrieved and claiming to be entitled to have his name (title) to be entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

**Article 59** Any person who is a registered shareholder or who claims to be entitled to have his name (title) entered into the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement new share certificate in respect of such shares (the "Relevant Shares").

If a shareholder of Domestic Shares loses his share certificate and applies to the Company for a replacement new share certificate, it shall be dealt with in accordance with article 144 of the Company Law.

If a shareholder of Overseas Listed Foreign Shares loses his share certificate and applies to the Company for a replacement new share certificate, it may be dealt with in accordance with the laws of the place where the original register of holders of Overseas Listed Foreign Shares is maintained, rules of the stock exchange or other relevant regulations.



If a shareholder of Overseas Listed Foreign Shares listed in Hong Kong (H Shares) loses his share certificate, the issue of a replacement new share certificate shall comply with following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and the evidence of the loss, and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) Before the Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that his name shall be entered in the register of shareholders in respect of such shares has been received.
- (3) The Company shall, if it intends to issue a replacement new share certificate, publish a notice of its intention at least once every thirty days in a period of ninety consecutive days in such newspapers as may be prescribed by the Board of Directors.
- (4) The Company shall have, prior to publication of its intention to issue a replacement new share certificate, delivered to the stock exchange on which its shares are listed a copy of the notice to be published, and may publish the notice upon receiving confirmation from such stock exchange that the notice has been exhibited in the premises of the said stock exchange. Such notice shall be exhibited in the premises of the said stock exchange for a period of ninety days.

In the case of an application made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published.

- (5) If, by the expiration of the 90-day period referred to in clauses (3) and (4) of this Article, the Company have not received from any person notice of any disagreement to such application, the Company may issue a replacement new share certificate to the applicant accordingly.
- (6) Where the Company issues a replacement new share certificate under this Article, it shall forthwith cancel the original share certificate and enter the cancellation and issue in the register of shareholders accordingly.

- (7) All expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by the Company shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant.

**Article 60** Where the Company issues a replacement new share certificate pursuant to these Articles of Association, the name (title) of a bona fide purchaser gaining possession of such new share certificate or the person who is subsequently entered in the register of shareholders as holder of such shares (if he is a bona fide purchaser) shall not be removed from the register of shareholders.

**Article 61** The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issue of the new share certificate, unless the claimant proves that the Company has acted deceitfully.

## **CHAPTER 8 SHAREHOLDERS' RIGHTS AND OBLIGATIONS**

**Article 62** A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders. A shareholder shall enjoy rights and bear obligations according to the class and proportion of the shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and bear the same obligations.

**Article 63** The ordinary shareholders of the Company shall enjoy the following rights:

- (1) The right to request the convening and holding of and to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (2) The right to dividends and other distributions in proportion to the number of shares held;
- (3) The right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (4) The right to transfer, donate or pledge his shares in accordance with laws, administrative regulations and these Articles of Association;

- (5) The right of knowledge and decision making power with respect to important matters of the Company in accordance with laws, administrative regulations and these Articles of Association;
- (6) The right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  1. the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  2. the right to inspect and copy, subject to payment of a reasonable charge:
    - (i) all parts of the register of shareholders;
    - (ii) personal particulars of each of the Company's directors, supervisors, president and other senior administrative officers, including:
      - (a) present name and alias and any former name or alias;
      - (b) principal address (residence);
      - (c) nationality;
      - (d) primary and all other part-time occupations and duties;
      - (e) identification documents and their relevant numbers;
    - (iii) state of the Company's share capital;
    - (iv) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of last accounting year and the aggregate amount paid by the Company for this purpose;
    - (v) minutes of shareholders' general meetings and accountants' report;
    - (vi) interim and annual reports of the Company.
- (7) In the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;

- (8) The right to request the company to repurchase their shares as a result of disagreement on the resolutions passed by the shareholders' general meeting on the merger or division of the Company;
- (9) Other rights conferred by laws, administrative regulations and these Articles of Association.

**Article 64** If a shareholder requests to inspect the information or obtain the relevant materials as described in Article 63 of these Articles of Association, he shall provide the Company with a written document showing the class and number of shares in the Company held by him. The Company shall at the request of such shareholder provide him with the relevant information upon confirmation of his identity.

**Article 65** If a resolution of a shareholders' general meeting or board meeting violates the provisions of existing laws and administrative regulations of the PRC, a shareholder may request the local People's Court to declare it invalid.

If the procedures for convening a shareholders' general meeting or board meeting or the voting methods thereof violate the existing laws and administrative regulations of the PRC or these Articles of Association, or the content of a resolution violates these Articles of Association, shareholders may petition the local People's Court to rescind such resolution within sixty days from the date on which such a resolution is passed.

**Article 66** If a director or any senior administrative staff violates any laws, administrative regulations or these Articles of Association in the course of performing his duties and causes losses to the Company, shareholders alone or in aggregate holding 1% or more of the Company's shares for a hundred and eighty consecutive days may request the supervisory committee in writing to initiate legal proceedings against such acts in the local People's Court; where the Company incurs losses as a result of the members of the supervisory committee having violated any laws, administrative regulations or these Articles of Association in the course of performing their duties, shareholders may request the Board of Directors in writing to initiate legal proceedings in the local People's Court.

If the supervisory committee or the Board of Directors refuses to initiate legal proceedings after receiving the aforesaid written request of shareholder, or fails to initiate such legal proceedings within thirty days on which such request is received, or in case of emergency where failure to initiate such legal proceedings immediately will result in irreparable damage to the Company's interest, the shareholder described in the preceding paragraph may initiate legal proceedings in the local People's Court directly in their own names in the interest of the Company.

These shareholders may also initiate legal proceedings in the People's Court under the provisions set out in the preceding two paragraphs if any third parties infringe on the lawful interests of the Company and result in damage to the Company.

**Article 67** Shareholders may initiate legal proceedings if a director or any senior administrative staff violates any laws, administrative regulations or these Articles of Association and harms the interests of shareholders.

**Article 68** The ordinary shareholders of the Company shall assume the following obligations:

- (1) To abide by these Articles of Association;
- (2) To pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) Not to withdraw their shares unless required by laws and regulations;
- (4) Not to abuse their rights as shareholders to harm the interests of the Company or other shareholders; not to abuse the independent legal person status of the Company and the limited liability of shareholders to harm the interests of any creditor of the Company.

Shareholders of the Company who abuse their rights as shareholders to harm the interests of the Company or other shareholders shall be liable for compensation.

Shareholders of the Company who abuse the independent legal person status of the Company and the limited liability of shareholders to harm the interests of any creditor of the Company shall be jointly liable for the debt of the Company;

- (5) Other obligations imposed by laws, administrative regulations and these Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

**Article 69** If a shareholder who holds 5% or more of the Company's voting shares pledges the shares in his possession, he shall submit a written report to the Company on the day when such pledge takes place.

**Article 70** In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some of the shareholders of the Company:

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including but not limited to opportunities beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including but not limited to rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with these Articles of Association.

**Article 71** For the purpose of the foregoing Article, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) he alone or acting in concert with others has the power to elect more than half of the Board of Directors;
- (2) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% (including 30%) or more of the voting rights in the Company;
- (3) he alone or acting in concert with others holds 30% (including 30%) or more of the issued and outstanding shares of the Company;
- (4) he alone or acting in concert with others in any other manner controls the Company in fact.

**Article 72** The controlling shareholders of the Company shall assume the following obligations for the Company:

- (1) The controlling shareholders and the Company shall implement separation of personnel, assets and finance and independence between organs and business of the Company;

- (2) The controlling shareholders shall respect decisions made by shareholders' general meeting and the Board of Directors of the Company, and shall not bypass the shareholders' general meeting or the Board of Directors in interfering with the decisions made and production and operation activities carried out legally by the Company;
- (3) The controlling shareholders shall nominate candidates of the Company's directors and supervisors in accordance with laws and regulations and these Articles of Association. Nominated candidates of directors and supervisors shall have the relevant knowledge and capacity of decision-making and supervision. The controlling shareholders shall not execute any approval procedure relating to the appointment of members of the Board of Directors or appointment of personnel at the shareholders' general meeting, or bypass shareholders' general meeting and Board of Directors in employing or dismissing any senior administrative officers of the Company; the controlling shareholders shall not interfere with the employment and dismissal and use of any senior administrative officers of the Company;
- (4) The controlling shareholders shall not take advantage of connected transactions, profit distribution, asset restructuring, external investment, capital appropriation and loan guarantee to harm the legal interests of the Company and other shareholders, and shall not exploit their special position to obtain additional benefits;
- (5) The controlling shareholders shall abide by the provisions of the Stock Exchange about abstaining from decision on connected transactions of the Company;
- (6) The controlling shareholders and their related companies shall avoid direct competition with the Company;
- (7) The controlling shareholders shall ensure that relevant information provided to the Company is true, accurate and complete, and ensure that the Company can legally perform disclosure obligation to public investors;
- (8) When exercising voting rights, the controlling shareholders shall not make decisions which harm the legal interests of the Company and other shareholders.

**Article 73** The controlling shareholders and beneficial controller of the Company have a fiduciary duty towards the Company and its other shareholders, and shall not exploit their connected relationship with the Company to harm the interests of the Company. If they have violated such provision and caused damage to the company, they are liable for compensation.

The controlling shareholders shall exercise their rights as contributors strictly in accordance with laws. The controlling shareholders shall not impair the legitimate interests of the Company and other shareholders by taking advantage from connected transactions, profit distribution, assets restructuring, external investment, capital appropriation and loan guarantee, nor shall they exploit their controlling position to prejudice the interests of the Company and other shareholders.

The Board of the Company shall establish a “moratorium upon misappropriation” mechanism on shares held by substantial shareholders. Once the Board becomes aware of any embezzlement of the Company’s assets by the controlling shareholder or the beneficial controller through abuse of the Company’s funds or by other means, the controlling shareholder’s shareholding in the Company shall be subject to moratorium by judicial order immediately. If the controlling shareholder is unable to repay the embezzled assets in cash, the Company shall be entitled to dispose of the shares held by the controlling shareholder and retain the proceeds resulting therefrom as compensation.

The directors, supervisors and other senior management personnel of the Company shall comply with the laws, administrative regulations and these Articles of Association. They shall exercise care and diligence and fulfill their fiduciary duties to the Company, and protect the assets of the Company at their own initiative. They shall not exploit their positions to facilitate, assist or indulge the controlling shareholder in embezzling the funds of the Company, nor shall they impair the Company’s interests through unauthorized guarantees, unfair connected transactions or otherwise.

If a director of the Company is found assisting or indulging the controlling shareholder and its associated enterprises in misappropriating the assets of the Company, upon the proposal of the Supervisory Committee or Shareholders who individually or jointly hold 3% or more of the shares in the Company, a general meeting of the Company shall be convened to consider removing such director from office.

If a supervisor of the Company is found assisting or indulging the controlling shareholder and its associated enterprises in misappropriating the assets of the Company, upon the proposal of the Board or Shareholders who individually or jointly hold 3% or more of the shares in the Company, a general meeting of the Company shall be convened to consider removing such supervisor from office.

If any other senior management personnel of the Company is found assisting or indulging the controlling shareholder and its associated enterprises in misappropriating the assets of the Company, upon the proposal of one-third or more of the directors or supervisors, a board meeting shall be convened to consider removing such senior management personnel from office.



If a director, supervisor or other senior management personnel of the Company fails to fulfil his/her duties of fiduciary to the Company by exploiting his/her position to assist or indulge the controlling shareholder and its associated enterprises in misappropriating the assets of the Company, and be suspected of committing an offence, upon a resolution passed by the Board or the Supervisory Committee of the Company, such personnel shall be transferred to the relevant judicial authority for investigation of criminal responsibility.

**Article 74** Written agreements shall be made in respect of connected transactions between the Company and a connected person, which shall be on the principles of equality, voluntariness and fair consideration. Connected transactions shall be made on normal commercial terms, and the consideration must be comparable with those provided by independent third parties in the market.

The Company shall take effective measures to prevent its connected persons from interfering with the operations of the Company and damaging the Company's benefits by way of monopolizing its purchase and sales channels.

The Company shall take effective measures to prevent shareholders and its connected parties from misappropriating or transferring the Company's funds, assets or other resources in whatever manner.

**Article 75** The Company shall take active steps to establish and improve its investor relation management system and boost communications and exchanges with the shareholders in every way available. The board secretary of the Company shall be specifically responsible for investor relation management.

## **CHAPTER 9 SHAREHOLDERS' GENERAL MEETINGS**

**Article 76** The shareholders' general meeting shall be the source of authority of the Company and shall exercise its powers according to the laws.

**Article 77** The shareholders' general meeting shall exercise the following functions and powers:

- (1) To decide on the Company's operational policies and investment plans;
- (2) To elect and replace directors who are not the employees' representatives and decide on matters relating to the remuneration of directors;

- (3) To elect and replace supervisors who are not the employees' representatives, and to decide on matters relating to the remuneration of supervisors;
- (4) To examine and approve reports of the Board of Directors;
- (5) To examine and approve reports of the supervisory committee;
- (6) To examine and approve the Company's proposed annual preliminary and final financial budgets;
- (7) To examine and approve the Company's profit distribution plans and plans for making up losses;
- (8) To decide on increase or decrease in the Company's registered capital;
- (9) To decide on matters such as merger, division, dissolution, liquidation and change in company forms of the Company;
- (10) To decide on the issue of debentures by the Company;
- (11) To decide on the appointment, dismissal and disengagement of the accountants of the Company;
- (12) To amend these Articles of Association;
- (13) To examine and approve the change in use of proceeds from raising capitals;
- (14) To examine the adoption of share incentive scheme;
- (15) To consider motions raised by shareholders individually or jointly holding 3% or more of the total shares of the Company carrying the right to vote;
- (16) To consider and approve significant acquisition, disposal and replacement of assets of the Company (the standards shall be fixed in accordance with the rules of the stock exchange of the listing place);
- (17) To consider and approve external guarantee by the Company at a shareholders' general meeting as required by the laws, administrative regulations, the listing rules of the stock exchange where the Company is listed and provisions of these Articles of Association;

- (18) To decide on other matters which require resolutions of the shareholders at shareholders' general meetings according to the relevant laws, administrative regulations, the listing rules of the stock exchange where the Company is listed and these Articles of Association;
- (19) To decide on which matters the Board of Directors may be authorised or delegated to deal with by the shareholders at shareholders' general meetings.

When the shareholders' general meeting decides on which matters the Board of Directors may be authorised or delegated to deal with, the shareholders' general meeting shall protect the legitimate rights and interests of the Company according to law and abide by laws and regulations strictly in order to ensure the Company's principle of efficient operation and scientific decision making. Matters which the Board of Directors may be authorised or delegated to deal with including but not limited to the following:

1. To modify the language of the Articles of Association after the shareholders' general meeting has passed the resolution on the amendments to the Articles of Association;
2. To distribute the interim dividends;
3. To decide on specific matters in connection with the issue of new shares and convertible bonds;
4. To deal with, mortgage and secure the fixed assets under the current operation policy and investment plan passed at the shareholders' general meeting, excluding direct or indirect provision of debts guarantee for the secured party with a gearing ratio exceeding 70%.
5. The shareholders' general meeting shall also decide on other matters which the Board of Directors may be authorised or delegated to deal with from time to time in accordance with laws, regulations and these Articles of Association.

**Article 78** Save for special circumstances such as crisis, the Company shall not, without the prior approval of shareholders at shareholders' general meeting, enter into any contract with any person other than a director, supervisor, president or other senior administrative officer whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

**Article 79** Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six months from the end of the preceding financial year.

**Article 80** Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (1) The number of directors is less than that is required by the Company Law or two thirds of the number of directors specified in these Articles of Association;
- (2) The accrued losses of the Company amount to one third of the total amount of its share capital;
- (3) Shareholder(s) individually or jointly holding 10% or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) It is deemed necessary by the Board of Directors or requested by the supervisory committee to convene an extraordinary general meeting;
- (5) More than one half of the independent directors propose to convene the meeting.

The number of shares held by shareholders in clause (3) above shall be calculated on the date when the written request is submitted.

**Article 81** The place for convening shareholders' general meetings shall be clearly set out in the notice of meeting. Shareholders' general meetings shall be held by way of live meetings in a venue. For the convenience of shareholders, the Company shall provide secure, cost-efficient and accessible online and other channels for participation in shareholders' general meetings in accordance with applicable laws, administrative regulations and rules of the China Securities Regulatory Commission or the Articles of Association. Shareholders who attend shareholders' general meetings in the aforesaid manners shall be deemed as present.

**Article 82** The Company shall engage lawyers to attend shareholders' general meetings and advise on the following issues with announcements made thereon:

- (1) Whether the convening of the shareholders' general meeting and its procedures are in compliance with laws, administrative regulations and these Articles of Association;
- (2) Whether the attendees are eligible and whether the eligibility of the convenor is lawful and valid;
- (3) Whether the procedures of voting and the voting results of the meeting are lawful and valid;
- (4) Legal opinions on other related matters at the request of the Company.

**Article 83** A shareholders' general meeting shall be convened and presided over by the chairman of the Board of Directors. If the chairman is unable to attend the meeting for any reason, the vice-chairman of the Board of Directors shall convene and take the chair of the meeting. If both the chairman and vice-chairman of the Board of Directors are unable to attend the meeting, then the Board of Directors may designate a director to convene and take the chair of the meeting. If no chairman of the meeting has been designated, shareholders present shall choose one person to be the chairman of the meeting. If for any reason the shareholders fail to elect a chairman, then the shareholder (including his proxy) presents in person or by proxy and holds the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.

Shareholders' general meetings convened by the supervisory committee shall be presided over by the chairman of the supervisory committee. If the chairman of the supervisory committee is unable or fails to perform his duties, a supervisor elected by more than half of supervisors shall preside over the meeting.

A shareholders' general meeting convened by the shareholders themselves shall be presided over by a representative nominated by the convening shareholders.

When a shareholders' general meeting is held and the chairman of the meeting violates the rules of procedures such that the shareholders' general meeting cannot proceed, a person may be elected to preside over the meeting, subject to the approval of shareholders present at the meeting and entitled to more than half of the voting rights.

**Article 84** Shareholders requisitioning the convening of an extraordinary general meeting or a class meeting shall abide by the following procedures:

- (1) Shareholders individually or jointly holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one or more counterpart requisitions stating the objectives of the meeting and requiring the Board of Directors to convene a shareholders' extraordinary general meeting or a class meeting.
- (2) The Board of Directors shall, in accordance with laws, administrative regulations and these Articles of Association, furnish a written reply stating its agreement or disagreement to convene the extraordinary general meeting within ten days upon receipt of such requisition.
- (3) If the Board of Directors agrees to convene the extraordinary general meeting, a notice of meeting shall be issued within five days after adoption of the relevant resolution by the Board of Directors. Any changes to the original requisition made in the notice shall require the approval of the relevant shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or does not furnish any reply within ten days upon receipt of such requisition, Shareholders individually or jointly holding 10% or more of the shares of the Company carrying the right to vote shall be entitled to propose to the supervisory committee that an extraordinary general meeting or a class meeting be convened, and such proposal shall be made in writing to the supervisory committee.

- (4) If the supervisory committee agrees to convene the extraordinary general meeting, a notice of meeting shall be issued within five days upon receipt of such requisition. Any changes to the original requisition made in the notice shall require the approval of the relevant shareholders.

If the supervisory committee does not issue a notice of meeting within the prescribed period, it shall be deemed as failing to convene and preside over the meeting.

- (5) If neither the Board of Directors nor the supervisory committee convene and preside over the shareholders' general meeting, the requisitionists themselves may convene such a meeting in a manner as similar as possible as that in which shareholders' meeting are to be convened by the Board of Directors within four months from the date of receipt of the requisition by the Board of Directors.

Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board of Directors to duly convene a meeting shall be repaid to the requisitionists by the Company and any sum so repaid shall be set off against sums owed by the Company to the directors in default.

**Article 85** Independent directors shall be entitled to propose to the Board of Directors the convening of an extraordinary general meeting. The Board of Directors shall, in accordance with laws, administrative regulations and these Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days upon receipt of such proposal.

If the Board of Directors agrees to convene an extraordinary general meeting, a notice of meeting shall be issued within five days after passing of the relevant resolution by the Board of Directors. If the Board of Directors does not agree to convene an extraordinary general meeting, reasons for such disagreement shall be given by way of announcement.

**Article 86** The supervisory committee shall be entitled to propose to the Board of Directors the convening of an extraordinary general meeting, provided that such proposal shall be made in writing. The Board of Directors shall, in accordance with laws, administrative regulations and these Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of an extraordinary general meeting within ten days upon receipt of such proposal.

If the Board of Directors agrees to convene an extraordinary general meeting, a notice of meeting shall be issued within five days after the passing of the relevant resolution by the Board of Directors. Any change to the original proposal made in the notice shall require the approval of the supervisory committee.

If the Board of Directors does not agree to convene an extraordinary general meeting or does not furnish any reply within ten days after receiving such proposal, the Board of Directors shall be deemed as incapable of performing or failing to perform the duty of convening a general meeting, in which case the supervisory committee may convene and preside over such meeting on an unilateral basis.

All necessary expenses incurred for such shareholders' general meeting convened by the supervisory committee shall be borne by the Company.

**Article 87** Where the supervisory committee or shareholders decide(s) to convene the extraordinary general meeting by itself / themselves, it / they shall send a written notice to the Board, and file the same with the local office of CSRC and the stock exchange at the place where the Company is located for record.

The shares of the Company carrying the right to vote of the convening shareholders shall not be lower than 10% of the total shares of the Company carrying the right to vote prior to the announcement of the resolutions of the shareholders' general meeting.

The convening shareholder shall submit relevant evidence to the local office of CSRC and the stock exchange at the place where the Company is located upon the issuance of the notice of general meeting and the announcement of the resolutions of the shareholders' general meeting.

**Article 88** The Board of Directors and the secretary to the Board of Directors shall cooperate with respect to matters relating to a shareholders' general meeting convened by the supervisory committee or shareholders at its / their own discretion. The Board of Directors shall provide the register of shareholders as of the record date.

**Article 89** Motions proposed at a shareholders' general meeting shall be the specific proposals relating to the matter that should be put forth for discussion at a shareholders' general meeting, upon which resolution shall be made at the shareholders' general meeting.

**Article 90** Where the Company convenes a shareholders' general meeting, the Board of Directors, the supervisory committee and shareholder(s) individually or jointly holding 3% or more of the Company's issued and outstanding shares carrying voting rights shall have the right to propose motions to the Company.

**Article 91** Shareholder(s) individually or jointly holding 3% or more of the Company's issued and outstanding shares carrying voting rights shall have the right to propose an ex tempore motion ten days prior to the general meeting by furnishing the same to the convener in writing. After the same have been reviewed and approved by the Board of Directors of the Company, those matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting will be placed on the agendas. The convener shall within two days after receiving the proposed motion issue a supplemental notice of general meeting to make public the contents of the ex tempore motion. If the Board of Directors considers that the contents of the motion are not within the scope of functions and powers of the shareholders' general meeting, it shall give reasons and explanation to the shareholders' general meeting and publish the motion and the board's explanation along with resolutions adopted by the shareholders' general meeting at the end of the meeting.



Save as provided in the preceding paragraphs, the convener shall not amend such new motions stated in the notice of shareholders' general meeting or add any new motion upon the issue of the notice of meeting.

Motions which are not included in the notice of meeting or which do not meet Article 89 of these Articles of Association shall not be voted on by the shareholders' general meeting and become resolutions.

**Article 92** Notice of a shareholders' general meeting shall be given by way of announcement or by any other manner as provided in these Articles of Association (if necessary), not less than forty-five days (including forty-five days) before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered, the date and the place of the meeting.

**Article 93** The Company shall, based on the written replies received twenty days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall within five days notify the shareholders again by public notice of the matters to be considered, the place and date for, the meeting. The Company may then hold the meeting after such publication of notice.

An extraordinary general meeting shall not decide on any matter not stated in the notice of meeting.

**Article 94** When the Board of Directors issues the notice for the convening of a shareholders' general meeting, the meeting shall not be postponed without reason. In case the shareholders' general meeting must be postponed under special circumstances, a notice regarding the postponement must be issued at least two working days before the original date of the shareholders' general meeting. In the postponement notice, the Board of Directors must state the reasons for the postponement and the date of the postponed meeting. When the shareholders' general meeting is postponed, the Board of Directors may not change the record date of the shareholding of the shareholders entitled to attend the shareholders' general meeting provided in the original notice.

**Article 95** A notice of meeting of shareholders shall:

- (1) be in writing;
- (2) specify the place, the date and time of the meeting;
- (3) state the matters and proposals to be considered at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor, president or other senior administrative officer in the proposed transaction and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed at the meeting;
- (7) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting;
- (9) specify the record date of shareholding of shareholders entitled to attend the shareholders' general meeting;
- (10) specify the name and telephone number of the contact person of the meeting.

The notice convening shareholders' general meeting and its supplementary notice shall fully and completely disclose the specific contents of all motions. For those items requiring the opinions of independent directors, the notice of shareholders' general meeting or the supplementary notice shall disclose both the opinions and the reasons of independent directors.

Where the Company convenes the shareholders' general meeting and provides shareholders with online voting, the notice of meeting shall specify the time and voting procedures of online voting and the matters to be considered and approved. Online or other means of voting for shareholders' general meeting shall start not earlier than 3:00 p.m. on the day before the convening of the on-the-spot shareholders' general meeting or later than 9:30 a.m. on the day of convening of the on-the-spot shareholders' general meeting, and shall end not earlier than 3:00 p.m. on the day when the on-the-spot shareholders' general meeting is concluded.

The period between the record date and the date for the meeting shall not be less than 30 days. No changes shall be made once the record date is confirmed.

**Article 96** Where the shareholders' general meeting intends to deliberate the election of directors or supervisors, the notice of meeting shall fully disclose the details information on the candidates for directors or supervisors at least in the following aspects:

- (1) Personal information such as educational background, work experience and other engagements;
- (2) Whether such candidate has any affiliation with the Company or its controlling shareholders or beneficial controllers;
- (3) The number of shares of the Company such candidate holds;
- (4) Whether such candidate has been penalised by the CSRC or any other relevant authorities.

Saving directors or supervisors who are elected by way of cumulative voting system, a single proposal shall be put forward for each candidate for directors or supervisors.

**Article 97** Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by announcement, by hand or by prepaid airmail to their addresses as shown in the register of shareholders. The notice for holders of Domestic Shares shall be published in one or more newspapers designated by the securities governing authority of the State Council not less than forty-five days (including forty-five days) before the date of the meeting; after the publication of notice, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The notice for holders of Overseas Foreign Listed Shares shall be published on the website of the Company ([www.csair.com](http://www.csair.com)) not less than forty-five days (including forty-five days) before the date of the meeting; after such publication, the holders of Overseas Foreign Listed Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

**Article 98** The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

**Article 99** The Board of Directors and other convener shall take necessary measures to ensure the good order of the shareholders' general meeting, take measures to deter any act disturbing the meeting, picking quarrels and provoking troubles or infringing the lawful rights and interests of any shareholder, and shall report in a timely manner such act to the relevant department for investigation and punishment.

**Article 100** All the shareholders or their proxies recorded in the register of members on the record date are entitled to attend the shareholders' general meeting, and shall exercise their voting rights pursuant to the laws, regulations and these Articles of Association.

Shareholders may attend the meeting in person, or they may appoint proxies to attend the meeting for them.

**Article 101** Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxies to attend and vote on his behalf. A proxy so appointed shall be entitled to exercise the following rights pursuant to the authorisation from that shareholder:

- (1) The shareholder's right to speak at the meeting;
- (2) The right to demand or join in demanding a poll;
- (3) The right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

Where that shareholder is a recognised clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the laws of Hong Kong), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) at any shareholders' general meeting or any meeting of any class of shareholders, provided that if more than one person is so authorised, the authorisation must specify the number and class of shares in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house (or its nominees) could exercise if it were an individual shareholder of the Company.

**Article 102** The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a legal entity, either under seal or under the hand of a director or attorney duly authorised.

**Article 103** If the instrument for appointing a proxy is signed by an attorney of the appointer, the power of attorney to sign or other documents of authorisation shall be notarially certified. The notarially certified copy of that power of attorney or other authorisation documents and the instrument appointing the proxy shall be deposited at the premises of the Company or such other place as is specified for that purpose in the notice convening the meeting.

If the appointer is a legal person, its legal representative or such person as is authorised by resolution of its Board of Directors or other governing body may attend at any shareholders' general meeting of the Company as a representative of the appointer.

**Article 104** Any instrument issued to a shareholder by the directors for use in appointing a proxy to attend and vote at meetings of the Company shall be in such format as to enable the shareholder to instruct the proxy to vote in favour of or against the motions according to his free will, and instructions shall be given in respect of each individual matter to be voted on at the meeting. The instrument of proxy shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit. Meanwhile, there shall be spaces for entering the date of issue and validity period and executing the signature (or affixing a seal). If the appointer is a legal person, the seal of the legal person entity shall also be affixed.

**Article 105** The instrument for appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, shall be deposited at the premises of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four hours before the time for holding the meeting or the time appointed for the passing of the resolution.

If the appointer is a legal person, its legal representative or such person as is authorised by resolution of its Board of Directors or other governing body may attend at any meeting of shareholders of the Company as a representative of the appointer.

**Article 106** A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company at its premises before the commencement of the meeting at which the proxy is used.

**Article 107** An individual shareholder who attends the shareholders' general meeting in person shall produce his identification card or other valid documents or certificates which can prove his identity, and his stock account card. Where a proxy is appointed to attend the meeting, the proxy shall produce his own identification documents and the instrument for appointing a proxy.

A legal person shareholder shall attend the meeting by its authorised representative or the attorney as appointed by such authorised representative. An authorised representative who attends the shareholders' general meeting shall produce his identification card and valid documents which can prove his identity. Where an attorney is appointed to attend the meeting, the attorney shall produce his own identification card and the relevant power of attorney executed by such authorised representative pursuant to the laws.

**Article 108** The Company shall, subject to the shareholders' general meetings being legally and validly held, and so far as the conditions permit, encourage a higher proportion of participation of shareholders in shareholders' general meetings through various means, including using modern information technology to establish an online voting platform.

**Article 109** Online voting adopted for the shareholders' general meeting shall be conducted in accordance with the relevant laws, rules and regulations. Where online voting is adopted for the shareholders' general meeting, all shareholders whose names appear on the register of members on the record date for the purpose of the shareholders' general meeting, are entitled to exercise their voting rights through the online voting system of the shareholders' general meeting, provided that the voting right of the same shares shall be exercised only by one of the following ways: on-the-spot voting, online voting or otherwise as specified. In the case of repeated voting for the same shares, only the first vote is valid.

- Article 110** The Board of Directors, independent directors and shareholders who meet the relevant requirements may solicit from other shareholders their voting rights in shareholders' general meetings. The solicitation shall be without consideration and information shall be fully disclosed to such shareholders.
- Article 111** The Board of the Company shall act in the best interest of the Company and its shareholders and shall examine the motions proposed at the shareholders' general meeting according to the provisions of Article 89.
- Article 112** If the proposing shareholders have any objection to the decision of the Board of Directors of not including their motions in the agendas of the shareholders' general meeting, they may request the convening of an extraordinary general meeting according to the provisions of Article 84.
- Article 113** The register of attendees of the meeting shall be prepared by the Company. Such register shall specify information such as the name of the persons (or units) attending the meeting, identity card number, residential address, number of shares or voting shares hold, name of the persons (or units) the proxy represents.
- Article 114** The convener and the legal counsel retained by the Company shall jointly verify the qualification of shareholders according to the register of shareholders provided by the securities depository and clearing authority, and shall register the name of the shareholders and the number of their voting shares. Such registration shall be concluded prior to the announcement by the chairman of the shareholders' general meeting of the number of shareholders and their proxies attending the meeting and the total number of their voting shares.
- Article 115** The chairman of the shareholders' general meeting shall, prior to the voting, declare the number of attending shareholders and proxies as well as the total number of their voting shares. The numbers of attending shareholders and proxies as well as the total number of their voting shares shall be subject to the register of the meeting.
- Article 116** All directors and supervisors and the board secretary shall attend the shareholders' general meeting, whereas the president and other senior administrative officers shall be present at the meeting.

**Article 117** The Company shall formulate rules of procedures of the shareholders' general meeting to specify in detail the convention and voting procedures of the meeting, including notice registration, deliberation of proposals, votes, vote counting, announcement of voting results, formation of resolutions, minutes and the signatures thereon, announcement, as well as the principles of authorisation by the shareholders' general meeting to the Board of Directors, the contents of such authorisation shall be expressly specified. The rules of proceedings of the shareholders' general meeting shall be an appendix of these Articles of Association, and shall be drafted by the Board of Directors and approved by the shareholders' general meeting.

**Article 118** At the annual general meeting, the Board of Directors and the supervisory committee shall report their respective work of the previous year to the general meeting of shareholders, and each independent director shall also make his duty report correspondingly.

**Article 119** Except for trade secret of the Company and issues which are not discloseable at shareholders' general meetings as provided by laws, regulations, or securities rules, directors, supervisors and senior administrative officers shall reply or give explanation and description to the inquiries and suggestions raised by the shareholders at the Shareholders' general meeting.

**Article 120** The board secretary shall be responsible for preparing minutes of shareholders' general meetings, which shall contain:

- (1) the time, venue, agendas of the meeting, and the name of the convener;
- (2) the the name of the chairman of the meeting, the directors, supervisors and senior administrative officers attending the meeting;
- (3) the number of shareholders and proxies attending the meeting, the total number of their voting shares and their respective proportions to the total number of shares of the Company; the numbers of voting shares of domestic shareholders (including their proxies), overseas listed foreign shareholders (including their proxies), holders of tradable shares (including the proxies) and holders of non-tradable shares (including the proxies) presented at the meeting and its proportion to the total number of shares of the Company;
- (4) the process of deliberation of each proposal, the main points of speeches and the voting results (including the votes on each resolution by domestic shareholders, foreign shareholders, holders of tradable shares and holders of non-tradable shares);
- (5) the inquiries or suggestions of the shareholders and the corresponding replies or explanations;



- (6) the names of legal counsel, vote counters, and supervisors;
- (7) other contents which, shall be contained in the minutes of the meeting as prescribed by these Articles of Association.

**Article 121** The chairman shall guarantee the veracity, accuracy and completeness of the minutes of the meeting. The directors, supervisors, board secretary, convener or their representative, chairman of the meeting shall sign on the minutes of the meeting. The minutes of meeting shall be kept together with the valid information such as the attendance register of the attending shareholders and the power of attorney of their proxies, the votes cast by way of internet and by other means shall be kept at the premises of the Company for a period ten years.

**Article 122** The convener shall ensure that the continuity of the shareholders' general meeting of until the final resolution is formed. Where the shareholders' general meeting is suspended or no resolution can be made due to force majeure or any other special causes, necessary measures shall be taken to resume or directly terminate the shareholders' general meeting, and an announcement shall be made in a timely manner. Meanwhile, the convener shall report this to the local office of the CSRC the stock exchange at the city where the Company is located.

**Article 123** Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including the proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

To adopt a special resolution, votes representing more than two thirds of the voting rights represented by the shareholders (including the proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

Shareholders (including the proxies) who attend the meeting shall expressly state their opinions for every matter to be determined by voting in one of the following manners: For, Against, or Abstain, except for securities depository and clearing institutions which serve as nominal holders of stocks under the Shanghai-Hong Kong Stock Connect and declare the vote of each actual holder concerned. Voters whose ballots are incomplete, incorrectly completed or illegible shall be deemed as giving up their voting rights, thus the voting result in respect of their shares shall be counted as "Abstain".

When any shareholders (including proxy of any shareholders) shall abstain from voting or be limited to vote in favor of or against any designated resolution according to the relevant rules and regulations (including the listing rules of the relevant exchange), any votes made by such proxy in contravention of the aforesaid regulation or limitation shall not be counted in the total number of voting shares.

**Article 124** When voting at the shareholders' general meeting, shareholders (including the proxies) may exercise their voting rights in accordance with the number of their voting shares and each share shall have one vote. When material issues affecting the interests of minority shareholders are considered at the shareholders' general meeting, the votes of minority shareholders shall be counted separately. The results of separate vote counting shall be disclosed publicly in a timely manner.

Shares held by the Company have no voting rights and these shares shall not count in the total number of voting shares represented at the meeting.

The Board of Directors, independent directors, and shareholders who meet the relevant requirements may solicit voting rights from other shareholders. Information including the specific voting intention shall be fully disclosed to the shareholders from whom voting rights are being solicited. Consideration or de facto consideration for soliciting shareholders' voting rights is prohibited. The Company shall not impose any minimum shareholding limitation for soliciting voting rights.

**Article 125** The following issues shall be approved by vote on a poll under the voting supervisor's supervision at the shareholders' general meeting:

- (1) Connected transactions;
- (2) Transactions that shall be approved by independent shareholders;
- (3) Options granted to major shareholders or independent directors or any of their associates; and
- (4) Any other transactions in which shareholders are materially interested and accordingly are required to refrain from voting at shareholders' general meeting.

Notwithstanding the above regulations, unless a poll is demanded before or after any vote by show of hands, at any shareholders' general meeting, a resolution shall be decided on a show of hands if not expressly required to be decided by a poll:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders entitled to vote present in person or by proxy;
- (3) by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the rights to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

The demand for a poll may be withdrawn by the person who makes such a demand.

**Article 126** A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

**Article 127** On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

**Article 128** In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to a casting vote.

**Article 129** The following matters shall be resolved by an ordinary resolution at the shareholders' general meeting:

- (1) Work reports of the Board of Directors and the supervisory committee;
- (2) Plans formulated by the Board of Directors for distribution of profits and for making up losses;

- (3) Appointment and removal of the members of the Board of Directors and members of the supervisory committee, their remuneration and method of payment;
- (4) Annual preliminary and final budget, balance sheet, profit and loss account and other financial statements of the Company;
- (5) Annual report of the Company;
- (6) Matters other than those specified by laws, administrative regulations or these Articles of Association to be resolved by special resolutions.

**Article 130** The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) The increase or decrease in share capital and the issue of shares of any class, warrants and other similar securities of the Company;
- (2) The issue of debentures of the Company;
- (3) The division, merger, dissolution and liquidation of the Company;
- (4) Amendments to these Articles of Association;
- (5) Repurchase of the Company's shares;
- (6) The Company plans to purchase or sell major assets or provides a guarantee the amount of which within a year exceeds 30% of the Company's latest audited total assets;
- (7) Share option scheme;
- (8) Any other matters as provided by laws, administrative regulations or these Articles of Association and considered by the shareholders' general meeting by way of an ordinary resolution to be of a nature which may have a material impact on the Company and shall be adopted by a special resolution.

**Article 131** Any external guarantee made by the Company shall be considered and approved by the Board. The matters involving guarantees as set out in Article 291 shall be approved at the shareholders' general meeting after consideration and approval by the Board.

**Article 132** Annual general meetings or extraordinary general meetings held at the request of shareholders and the supervisory committee shall not adopt voting by way of written resolutions. Extraordinary general meetings held for other reasons may vote by way of written resolutions, except for the following matters:

- (1) Increase or decrease in the Company registered capital;

- (2) Any issue of debentures by the Company;
- (3) Merger, division, dissolution and liquidation of the Company;
- (4) Any amendment to these Articles of Association;
- (5) Plan for distribution of profits and recovery of losses;
- (6) Appointment and removal of members of the Board of Directors and the supervisory committee;
- (7) Change in application of raised funds;
- (8) Connected transactions that shall be considered and examined by the shareholders' general meeting;
- (9) Acquisition and disposal of assets that shall be considered and examined by the shareholders' general meeting;
- (10) Change of accounting firms;
- (11) Other matters that shall not be voted by way of written resolutions as provided by these Articles of Association.

**Article 133** The nominee list of Directors and Supervisors of the Company shall be submitted to the shareholders' general meeting for resolution. The Board of Directors shall simultaneously provide shareholders with bibliographical details, basic information about and written undertakings of nominees of Directors and Supervisors.

**Article 134** When the shareholders' general meeting is examining and discussing a connected transaction, the connected shareholder shall not participate in the vote on the shares. His shares carrying the voting rights shall not be counted as valid votes in the total. The announcement on the resolutions passed by the shareholders' general meeting shall fully disclose information regarding the voting of the independent shareholders. If under special circumstances, the connected shareholders cannot withdraw from the voting, they may vote in the normal course of proceeding after the Company has obtained the approval from the competent authorities provided that the Company shall give detailed explanation thereof in the announcement on the resolutions passed by the shareholders' general meeting.

**Article 135** The accumulative voting system shall be promoted in the election of directors (excluding directors assumed by staff representatives) and supervisors (excluding supervisors assumed by staff representatives) at the shareholders' general meetings.

The accumulative voting system referred to herein means that, in the election of directors or supervisors at the general meeting, each share carrying voting right shall carry the same number of voting right as the number of directors or supervisors proposed to be elected, and the voting rights of the shareholders may be freely cast among the proposed directors and supervisors, either be separately cast in favour of a number of nominees or be collectively cast in favour of one nominee. As such, based on the number of votes that the nominated directors and supervisors have got and the number of directors or supervisors proposed to be elected, those who have got more votes shall be elected.

**Article 136** Differential voting shall be applied upon election of the Directors and Supervisors in accordance with the accumulative voting system. The number of nominees shall be more than the proposed number of Directors and Supervisors.

**Article 137** After issue of notice of shareholders' general meeting by the Company about election of Directors and Supervisors, shareholders holding individually or in aggregate more than 5% of the voting shares of the Company may propose nominees of Directors and Supervisors before the shareholders' general meeting for review by the Board of Directors before submission to shareholders' general meeting for examination. Shareholders holding individually or in aggregate more than 1% of the voting shares of the Company may propose nominees of independent directors for approval by the Board of Directors before submission to a shareholders' general meeting for consideration and approval.

**Article 138** The independent directors shall be elected separately from other members of the Board of Directors in accordance with the accumulative voting system.

**Article 139** Except for the accumulative voting system, the shareholders' general meeting shall vote on all motions item by item, and shall vote on the motions in time sequence when various proposals are put forward for a single matter. Unless the shareholders' general meeting is suspended or no resolution can be passed due to force majeure or any other special reasons, the shareholders' general meeting shall not set aside or cast no vote on the motions.

**Article 140** When a motion is put to discussion at the shareholders' general meeting, no modification of the motion shall be made, or the relevant change shall be deemed as a new motion which shall not be voted at the meeting.

**Article 141** Before a resolution is voted on at a general meeting, two representatives of the shareholders shall be elected as vote counters and scrutinisers. Any shareholder who is interested in the matter under consideration and proxies of such shareholder shall not participate in vote counting or scrutinising.

When the shareholders are voting on the motions, lawyers, shareholder representatives and supervisory representatives shall count and scrutinise the votes jointly, and the voting result will be announced forthwith. Voting on the resolutions will be recorded in the minutes of meeting.

Shareholders or their proxies that vote on line shall have the right to check and inspect their voting results through the relevant voting system.

**Article 142** The on site shareholders general meeting shall not end earlier than the online means or other means. The chairman of the meeting shall announce the voting and result of each of the motions, and announce whether they are approved according to the results.

Before the results are officially announced, all the on site related parties such as the listed companies, vote counters, vote scrutinisers, substantial shareholders and network service providers are obliged to keep the result confidential.

**Article 143** The chairman of the meeting shall be responsible for determining whether a resolution is passed. His decision, which is final and conclusive, shall be announced at the meeting and recorded in the minutes of meeting.

Where online voting is provided at the shareholders' general meeting of the Company concurrently, the number of votes by shareholders or their appointed representatives through online voting system of the shareholders' general meeting shall be taken into the total number of votes of the shareholders' general meeting together with the number of votes on site of the meeting and by other mean as specified.

**Article 144** If the chairman of the meeting has any doubt as to the result of a resolution put to the vote of the meeting, he may have the votes counted. If the chairman of the meeting fails to have the votes counted, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may demand that the votes be counted immediately after the declaration of the result, and the chairman of the meeting shall have the votes counted promptly.

**Article 145** If votes are counted at a shareholders' general meeting, the vote counting result shall be recorded in the minutes of the meeting.

- Article 146** Results of the resolution shall be announced timely, and the announcement shall contain the number of shareholders and proxies present, the total number of voting rights and the percentage of the voting rights to the total of voting shares of the Company, means of voting, the voting result for each motion and the details of each of the resolutions. Statistic counting and announcement shall be conducted on the attendance for domestic shareholders and foreign shareholders separately.
- Article 147** For If the motion is not passed, or if the resolutions of the previous general meeting have been changed by the present shareholders' general meeting, special highlight should be made in the announcement of the resolutions of the shareholders' general meeting.
- Article 148** When the shareholders' general meeting has passed motions regarding cash distribution, bonus issue or conversion of capital common reserve into capital, the specific proposals will be implemented within two months after the close of the shareholders' general meeting and all administrative approvals (if necessary) are obtained.
- Article 149** The minutes of meeting together with the attendance register of the attending shareholders and the power of attorney of their proxies shall be kept at the premises of the Company.
- Article 150** Copies of the minutes of meeting shall be available for inspection free of charge by shareholders during business hours of the Company. If a shareholder requests the Company for a copy of such minutes, the Company shall send a copy of such minutes to him within seven days after having received reasonable charges.
- Article 151** Matters uncovered by these Articles of Association regarding the convening of shareholders' general meeting, voting procedures and deliberation of proposals shall be handled in accordance with the relevant provisions of laws and regulations effective in the PRC.

#### **CHAPTER 10 SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS**

- Article 152** Those shareholders who hold different classes of shares are shareholders of different classes.  
Apart from the holders of other classes of shares, the holders of Domestic Shares and holders of Overseas Listed Foreign Shares shall be deemed to be shareholders of different classes.



A class of shareholders shall, in accordance with laws, administrative regulations and these Articles of Association, enjoy rights and bear obligations.

**Article 153** Rights conferred on any class of shareholders in the capacity of shareholders (“class rights”) may not be varied or abrogated unless approved by a special resolution of shareholders in shareholders’ general meeting and by holders of shares of that class at a separate meeting conducted in accordance with Article 154 to 156.

**Article 154** The following circumstances shall be deemed to be variation or abrogation of the rights of a class of shareholders:

- (1) To increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (2) To effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (3) To remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (4) To reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (5) To add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (6) To remove or reduce rights attached to shares of such class to receive payment payable by the Company in particular currencies;
- (7) To create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (8) To restrict the transfer or ownership of the shares of such class or add to such restriction;

- (9) To issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (10) To increase the rights or privileges of shares of another class;
- (11) To restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (12) To vary or abrogate the provisions of these Articles of Association.

**Article 155** Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning Clauses (2) to (8), (11) and (12) of Article 154, but interested shareholder(s) shall not be entitled to vote at class meetings.

The meaning of "interested shareholder(s)" as mentioned in the preceding paragraph is:

- (1) in the case of a repurchase of shares by offers to all shareholders on a pro rata basis or public dealing on a stock exchange under Article 39, a "controlling shareholder" within the meaning of Article 72;
- (2) in the case of a repurchase of share by an off-market contract under Article 39, a holder of the shares to which the proposed contract relates;
- (3) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate obligation imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

**Article 156** Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 154, are entitled to vote at class meetings.

**Article 157** Notice of a class meeting shall be given by way of announcement or by any other manner as provided in these Articles of Association (if necessary) not less than forty-five days (including forty-five days) before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company twenty days before the date of the class meeting.

If the number of shares carrying voting rights at the class meeting represented by the shareholders who intend to attend the meeting reaches more than one half of the voting shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders again by public notice of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after such publication of notice.

**Article 158** Notice of class meetings need only be served on shareholders entitled to vote thereat.

Any meeting of a class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings. The provisions of these Articles of Association relating to the manner to conduct any shareholders' general meeting shall apply to any meeting of a class of shareholders.

**Article 159** Pursuant to the provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, in addition to other classes of shareholders, holders of Domestic Shares and holders of Overseas Listed Foreign Shares are deemed to be different class of shareholders.

**Article 160** The special procedures for voting at any meeting of a class of shareholders shall not apply to the following circumstances:

- (1) Where the Company issues, upon the approval by special resolution of its shareholders in shareholders' general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its issued and outstanding Domestic Shares and Overseas Listed Foreign Shares;
- (2) Where the Company's plan to issue Domestic Shares and Overseas Listed Foreign Shares at the time of its establishment is carried out within fifteen months from the date of approval by the Competent securities authority of the State Council.

## **CHAPTER 11 BOARD OF DIRECTORS**

**Article 161** The Company shall have a Board of Directors which is responsible to the shareholders' general meetings. The Board of Directors shall comprise seven to eleven members, one of whom shall be the chairman and one of whom shall be vice-chairman. The chairman and the vice chairman shall be elected with the approval of more than half of all the directors.

A director shall not be required to hold any shares of the Company.

**Article 162** The Board shall be responsible to the shareholders' general meeting and shall exercise the following powers:

- (1) To be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;
- (2) To implement the resolutions of the shareholders' general meetings;
- (3) To decide on the Company's business plans and investment plans;
- (4) To formulate the Company's annual preliminary and financial budgets;
- (5) To formulate the Company's profit distribution plan and plan for making up losses;
- (6) To formulate proposals for increases or decrease in the registered capital and the issue of debentures or other securities of the Company as well as listing of such securities of the Company;
- (7) To draw up plans for substantial acquisitions, purchase of the Company's shares or merger, division or dissolution and change in the form of the Company;
- (8) To decide on matters relating to the Company's assets pledge, external guarantee, entrusted financial management, connected transaction etc. according to authorisation of shareholders' general meeting;
- (9) To decide on the Company's acquisition and sales of assets and risk investments;
- (10) To decide on the establishment of the Company's internal management structure;
- (11) To appoint or dismiss the Company's president and the board secretary, and pursuant to the president's nominations to appoint or dismiss the vice president, the chief financial officer and other senior administrative officers of the Company and decide on their remunerations and rewards and punishments;
- (12) To establish the Company's basic management system;

- (13) To formulate proposals for amendments to these Articles of Association;
- (14) To manage information disclosure of the Company;
- (15) To establish and implement effective internal control system of the Company;
- (16) To propose to the shareholders' general meeting for the engagement or change of accounting firm for the audit work of the Company;
- (17) To receive the work report and to check the work of the president of the Company;
- (18) To exercise any other powers conferred by these Articles of Association or the shareholders' general meeting.

Except for resolutions of the Board of Directors in respect of the matters specified in Clauses (6), (7), (8) and (13) of this Article which shall be passed by more than two-thirds of all the directors, resolutions of the Board of Directors in respect of all other matters may be passed by more than one half of all the directors.

**Article 163** Prior to making decisions on material issues of the Company, the Board shall first seek advice from the Party Committee of the Company.

**Article 164** The Board of Directors shall not, without the prior approval of shareholders in a shareholders' general meeting, dispose of or agree to dispose of any fixed assets of the Company where the aggregate of the expected value of the consideration for the proposed disposal and the value of the consideration for any similar disposal of fixed assets in the four months immediately preceding the proposed disposal, exceeds 33% of the value of the Company's fixed assets as stated in the last balance sheet placed before the shareholders' general meeting.

A "disposal of fixed assets" as referred to in this Article includes an act involving the transfer of an interest in certain assets but does not include the provision of fixed assets by way of security.

Breach of the first paragraph of this Article shall not affect the validity of any transaction entered into by the Company in disposing of fixed assets.

**Article 165** The Board of Directors shall explain to the shareholders' general meeting regarding the non-standard auditors' advice given by the chartered accountant in relation to the financial report of the Company.

**Article 166** The Board of Directors shall formulate the rules of procedures of board meetings to ensure the implementation by the Board of Directors of the resolutions of the shareholders' general meeting, the enhancement of work efficiency, and the guarantee of scientific decision making.

**Article 167** The Board of Directors shall determine external investment, acquisition and sale of assets, asset pledge, external guarantee, entrusted financial management, scope of powers for connected transactions, establishment of stringent examination and decision making procedures; specialists or professional personnel shall be organised to assess and examine any material investment projects and such investment projects shall be submitted to the shareholders' general meeting for approval.

**Article 168** The Board of Directors shall perform its duties in accordance with State laws, administrative regulations, these Articles of Association and resolutions of the shareholders' general meeting to.

**Article 169** The chairman of the Board of Directors shall exercise the following powers:

- (1) To preside over the shareholders' general meeting, and to convene and preside over the meetings of the Board of Directors;
- (2) To check the implementation of board resolutions;
- (3) To sign the securities issued by the Company;
- (4) To exercise the powers of the legal representative;
- (5) To exercise special disposal powers that are in compliance with laws, administrative regulations and in the interests of the Company on matters of the Company in case of force majeure such as extraordinarily serious natural calamities, and provide post-event reports to the Board and the shareholders' general meeting;
- (6) To exercise other powers vested by the Board.

The vice chairman shall assist the chairman of the Board of Directors. If the chairman of the Board of Directors is unable to exercise his power, he may designate a vice chairman to exercise such powers on his behalf.

**Article 170** The vice chairman of the Company shall assist the chairman. Where the chairman is unable or fail to perform his duties, the vice chairman shall perform the duty on behalf of the chairman. Where the vice chairman is unable or fail to perform his duties, a majority of the directors may jointly elect one director to perform the duties.

**Article 171** Regular board meetings shall be held at least four times every year and be convened by the chairman of the Board.

Board meetings shall be held in principle at the place where the Company is located. It may be held at other places both at home and abroad upon resolution by the Board of Directors.

**Article 172** A special board meeting shall be convened by the Board when it is

- (1) proposed by shareholders representing more than one tenth of voting rights;
- (2) proposed by one third or more of the directors;
- (3) proposed by the supervisory committee;
- (4) considered necessary by the Chairman of the Board of Directors;
- (5) proposed by more than half of the independent directors;
- (6) proposed by the General Manager;
- (7) requested to be convened by the securities regulatory organ.

The Chairman of the Board of Directors shall convene and preside over a board meeting within ten days after receiving such proposal.

**Article 173** The method and time of notice of the board meeting as follows:

- (1) Notify the directors via hand delivery, fax, email or other methods where delivery can be confirmed ten days before the date of the regular meeting;
- (2) Notify the directors via hand delivery, telephone, fax, email or other methods where delivery can be confirmed five days before the date of the extraordinary meeting.
- (3) For a meeting notice sent by hand, the recipient shall sign (or seal) the relevant receipt. The receipt date shall be the date of service; for a notice sent by registered mail, the 5th working day from the date of sending shall be the date of service; for a notice sent by fax, the day of sending shall be the date of service subject to the date indicated on the fax report; for a notice sent by e-mail, the time of e-mail reaching the recipient's specific system shall be the time of service.
- (4) When a special meeting of the Board needs to be held as early as possible in case of an emergency, the meeting notice is allowed to be given by telephone or in other verbal forms at any time provided that the convener makes necessary explanations at the meeting.
- (5) Such notices shall be in Chinese, with English version when necessary.

**Article 174** Notice of a board meeting shall contain:

- (1) the date and venue of the meeting;
- (2) the method for which the meeting is held;
- (3) the matters to be discussed (the agendas);
- (4) the convener and the chairman of the meeting, the person who proposes the special board meeting and his/her written proposal;

- (5) the date of the notice. The materials necessary for the directors to vote in the meeting;
- (6) the request for the personal attendance of the directors or the attendance through the appointment of an alternate director;
- (7) the contact person and the method of contact;
- (8) the date of the notice.

Oral notice shall at least include the details of item (1) and (2) and the reason for convening an urgent special board meeting with short notice.

**Article 175** Board meetings shall be held only if more than half of the directors are present. Each director shall have one vote. A resolution of the Board of Directors must be passed by more than half of all the directors.

Where the number of votes cast for and against a resolution is equal, the chairman of the Board of Directors shall have a casting vote.

Where a director (or his associate) is interested in any resolution proposed at a board meeting, such director shall abstain from voting and shall not have a right to vote. Such director shall not be counted in the quorum of the relevant meeting. Such directors also shall not vote on behalf of other directors. Board meetings may be convened by more than half of the directors who are not related. Resolutions of board meetings shall be passed by more than half of directors who are not related.

When the Board of Directors votes on matters relating to connected transactions, in the event that the number of voting directors is less than three after unrelated directors abstain from voting, all directors (including unrelated directors) shall vote on the procedures for the connected transactions to be submitted to the shareholders' general meeting for approval, and the relevant resolutions relating to such transactions shall be approved at the shareholders' general meeting, while an announcement stating the opinions of independent directors shall be made separately.

**Article 176** If any director who attends the meeting but has not stated before or upon attendance that he has not received the notice of the meeting, such director shall be deemed to have received the notice of the meeting.

**Article 177** Any regular or special board meeting may be held by way of telephone conference or similar communication equipment so long as all directors participating in the meeting can clearly hear and communicate with each other. All such directors shall be deemed to be present in person at the meeting.



- Article 178** For matters which need to be approved at a special board meeting, in lieu of convening a board meeting, a written resolution may be adopted by the Board if such resolution has been sent to all members of the Board and affirmatively signed and adopted by the number of directors necessary to make such a decision as stipulated in Article 175.
- Article 179** Directors shall attend any board meeting in person. Where a director is unable to attend for some reasons, he or she may authorise in writing another director to attend the board meeting on his behalf. The instrument of proxy shall specify the name of the proxy, the matters to be authorised, scope of authorisation and the validity period, and the proxy shall sign on or affix a chop to such instrument. The director attending the meeting for another director shall exercise the rights of the latter director within the scope of authorisation. Any director who is unable to attend a particular board meeting and has not authorised a proxy to attend on his behalf shall be deemed as waiving the right to vote at that meeting.
- Article 180** The Board of Directors shall keep minutes of its decisions on the matters considered. Directors attending the meeting and the person taking the minutes shall sign their names on the minutes of the meeting. Directors shall be responsible for the resolutions of the board meetings. Where a resolution of the board meetings violates laws, administrative regulations or Articles of Association and causes serious losses to the Company, the directors who took part in such a resolution shall be liable to compensate the Company. However, if a director can prove that he had expressed his opposition to such resolution when it was put to the vote, and such opposition is recorded in the minutes of the meeting, the director may be relieved of such liability.
- Article 181** The resolutions of all board meetings shall be recorded and filed in Chinese. The Board of Directors shall keep minutes of resolutions passed at board meetings. The minutes shall be signed by directors present at the meetings and presented to all directors for examination as soon as possible after the meetings. Any director who intends to amend the minutes shall within six working days after receiving the same submit his proposed amendments in written to the chairman.
- Minutes of board meetings shall be kept as records of the Company for a period of ten years.
- Article 182** The completed and approved minutes shall be signed by the chairman and the attending directors (including the proxies) and the board secretary. A complete copy of the minutes shall be sent to every director as soon as possible.

**Article 183** The minutes of meetings shall contain the following information:

- (1) The date, venue and the name of the convener of the meeting;
- (2) Names of the directors attending the board meeting in person and as proxies;
- (3) Agendas of the meetings;
- (4) Summary of the statements made by the directors;
- (5) The method and result of voting for every resolution (with the number of votes for and against the resolution and the number of abstained votes).

**Article 184** Directors of the Company are natural persons. A person shall be disqualified from being a director of the Company in any one of the following circumstances:

- (1) The individual has no capacity to undertake civil liabilities or restricted capacity to undertake civil liabilities;
- (2) A period of five years has not yet elapsed since the penalisation on conviction of corruption, bribery, unauthorised taking of properties, misappropriation of properties or disrupting social and economic order; or a period of five years has not yet elapsed since being deprived of political rights for commission of offences;
- (3) A period of three years has not yet elapsed since the completion of the liquidation of any company or enterprise which was insolvent due to unsound business operation and management and where the person acted as a director, factory manager or manager of such company or enterprise and was personally liable for such insolvency;
- (4) A period of three years has not yet elapsed since revocation of the business license of a company or enterprise due to illegal business operations where the person was the legal representative of such company or enterprise and for which he was personally liable;
- (5) The person is personally liable for a substantial loan which was due for payment but remains unpaid;
- (6) The person has been involved in criminal offences subject to investigation by judicial authorities and the case has yet been settled;
- (7) The person is not eligible for acting in the leadership of a company or enterprise according to laws or administrative regulations;
- (8) The person is not a natural person;

- (9) A period of five years has not yet elapsed since the person was adjudged by the relevant governing authority to be guilty of contravention of provisions of securities regulations involving fraud or dishonesty;
- (10) Currently being barred by the China Securities Regulatory Commission from participating in the securities market;
- (11) Other stipulations of laws, administrative regulations rules or departmental rules.

Any election and appointment of directors in breach of this Article will be void. Any directors who fall within one of the above categories during their term of service will be removed by the Company.

**Article 185** Directors shall be elected and replaced at the shareholders' general meeting, with a term of office of three years. Directors (including alternate directors) shall have a term commencing on the date of the resolutions of the shareholders' general meeting and expiring upon conclusion of the tenure of the existing Board of Directors. Upon expiry of his term, a director shall be eligible for re-election.

Where no new appointment is made upon expiry of the term of a director, the original director shall, prior to the new director entering on the office, continue to perform his duties as a director in accordance with the provisions of laws, administrative regulations and these Articles of Association.

President or other senior administrative officers shall serve the office of director concurrently. However, the total number of directors serving the office of president or other senior administrative officers concurrently and labour union representative holding the office of director shall not exceed half of the total number of directors of the Company.

**Article 186** Directors shall be abided by laws, administrative rules and these Articles of Association, and owe to the Company the following faithful obligations:

- (1) Not to abuse their authority of office to obtain bribes or other illegal income and not to misappropriate the property of the Company;
- (2) Not to misappropriate the capital of the Company;
- (3) Not to deposit assets or capital of the Company in any accounts which are opened in their own name or in the names of other persons;

- (4) Not to act in violation of these Articles of Association and lend the Company's capital to others or provide guarantee to others by charging the Company's assets before obtaining consent at the shareholders' general meetings or at board meetings;
- (5) Not to enter into contracts or transactions with the Company in violation of these Articles of Association or before obtaining consent in the shareholders' general meeting;
- (6) Not to use their position to obtain for themselves or others business opportunities which originally belonged to the Company, or to run themselves or others business which is in the Company's business line, before obtaining consent at the shareholders' general meeting;
- (7) Not to gain for themselves commissions in transactions of the Company;
- (8) Not to disclose the secrets of the Company without consent;
- (9) Not to use their connections to hurt the interests of the Company;
- (10) To be bound by other obligations stipulated by laws, administrative regulations, departmental rules and these Articles of Association.

Income which is obtained by any directors in violation of this Article shall be retained for the benefit of the Company. Any directors who act in violation of this Rule shall be liable for compensation for any losses caused to the Company.

**Article 187** The directors shall be abided by laws, administrative rules and these Articles of Association, and owe to the Company the following diligence obligations:

- (1) They shall exercise the rights granted by the Company with care and diligence to ensure that the Company's commercial activities are in compliance with laws, administrative rules and the requirements of all economic policies of the country and that its commercial activities have not gone beyond the scope stipulated in the business license;
- (2) They shall treat all shareholders equally;
- (3) They shall have a good knowledge of the Company's business operation;

- (4) They are required to sign the written confirmation of the Company's regular report. They shall ensure the information disclosed by the Company is true, accurate and complete;
- (5) They shall inform the supervisory committee of the truth and are not allowed to obstruct the supervisory committee or supervisors from exercising their powers;
- (6) They are bound by other diligence obligations stipulated by laws, administrative regulations, departmental rules and these Articles of Association.

**Article 188** Directors shall be elected by the shareholders' general meeting from the Board of Directors or candidates nominated by shareholders individually or jointly holding 5% or more of the shares carrying the right to vote. At least seven days' notice of nomination of a candidate for election as a director and particulars of such candidate shall be given to the Company, and such seven days period shall start no sooner than the first day after the date of giving the notice and end no later than seven days prior to the date of such shareholders' general meeting.

The candidates for election as directors shall give at least seven days' prior written confirmation to the Company, and such seven days period shall start no sooner than the day after the date of giving the notice and end no later than seven days prior to the date of such shareholders' general meeting. The written confirmation shall indicate the willingness of the candidate to be nominated, and confirm that information of the candidate publicly disclosed are true and complete, that the candidate will faithfully discharge his duties as a director if he is elected.

Where shareholders individually or jointly holding 5% or more of the shares carrying the right to vote of the Company propose any special resolutions for election of non-independent directors at the Company's annual general meeting, written notice of the intention to propose a candidate for election as a director, notice by such candidate of his willingness to be elected and details and confirmation of the candidate shall be given to the Company not more than seven days prior to the date of the meeting appointed for such election. The seven days period shall start no sooner than the first day after the date of giving the notice and end no later than seven days prior to the date of such shareholders' general meeting.

The chairman and the vice-chairman shall be elected and removed by more than one half of all the members of the Board of Directors. The term of office of each of the chairman and the vice-chairman is three years, renewable upon re-election.

The shareholders' general meeting may by ordinary resolution remove any director before the expiration of his term of office (but without prejudice to such director's right to claim damages based on any contract) on the condition that all the relevant laws and administrative regulations are fully complied with.

A director is not required to hold shares of the Company.

**Article 189** The election of directors shall be based on a cumulative voting system. During the election, each share held by shareholders attending the general meeting shall have the same voting rights as the number of director's candidates. Each shareholder may cast all his votes to a single candidate or spread his votes among different candidates, provided that the cumulative votes cast shall not exceed the total number of votes held by that shareholder. The directors shall be elected according to the number of votes cast for them. The number of votes obtained by the director's candidates shall exceed half of the voting rights represented by the persons attending the shareholders' general meeting.

**Article 190** A director who fails to attend in person and does not entrust other directors to attend two consecutive board meetings shall be deemed as unable to perform his duties. The Board of Directors shall propose to the shareholders' general meeting to remove such director.

**Article 191** A director may resign before the expiration of his term. The resigning director shall submit to the Board of Directors a notice of resignation. The Board of Directors shall disclose the relevant information within two days.

If a director's resignation results in the number of directors constituting the Board of Directors to fall below the quorum, the notice of resignation of such directors shall become effective only when the vacancy arising from his resignation has been filled by a new director. The original director shall perform his duties as a director according to laws, administrative regulations and the relevant provisions of these Articles of Association. The Board of Directors consisting of the remaining directors shall convene an extraordinary general meeting as soon as possible to elect a new director to fill the vacancy arising from the resignation of such director. The power of the resigning director and the Board of Directors consisting of the remaining directors shall be subject to due restrictions until the shareholders' general meeting has made a resolution in respect of the re-election of a director to fill the vacancy.

Where directors leave the Company before expiry of their terms of office, they shall compensate the Company for any losses arising from their unauthorised resignation.

Except the circumstances specified above, the resignation of a director shall become effective upon the notice of resignation is served to the Board of Directors.

- Article 192** Upon the resignation taking effect or the expiry of the term of office of a director, such director shall duly complete all handover. The fiduciary duties owed by such director to the Company and the shareholders will not be released for certain before or within a reasonable period of time after the resignation takes effect and upon the expiry of his term of office. The obligation of confidentiality of such director in relation to the commercial secrets of the Company remains effective after the term of such director ends until such commercial secrets become public information. The continuity of other obligations shall be determined on the principle of fairness, and dependent on the length of time between the incident occurs and the resignation, as well as the conditions and circumstances under which the director terminates his relationship with the Company.
- Article 193** Without stipulation by these Articles of Association or lawful authorisation by the Board of Directors, no director shall in his own name act for the Company or the Board of Directors. Where a director acts in his own name but a third party reasonably believes that such director is acting for the Company or the Board of Directors, such director shall declare in advance his position and status.
- Article 194** Where an executive director violates any laws, administrative regulations, departmental rules or the provisions of these Articles of Association in the course of performing his duties and causes loss to the Company, such executive director shall be liable for compensation.
- Article 195** The Company shall have independent directors. The independent directors shall have no other position in the Company (other than as director of the Company), and shall not be in any relationship with the Company or its major shareholders that will impair their independent and objective judgment.
- Article 196** One third or more of the members of the Board of Directors shall be Independent Directors, of which at least one independent director shall be an accounting professional. Independent directors shall carry out their duties honestly and faithfully, protect the Company's interest and in particular prevent encroachment of the rights and interests of public shareholders.

**Article 197** An independent director shall meet the following requirements:

- (1) He shall be qualified as a director of a listed company according to the laws, administrative rules and other relevant rules of the jurisdiction where the Company's shares are listed;
- (2) He shall have the basic knowledge of operating a listed company, and is well acquainted with the relevant laws, administrative rules and other rules and regulations;
- (3) He shall have at least five years of experience in the legal or economic field, or other experience necessary for performance of his duties as an independent director;
- (4) Other conditions set forth in these Articles of Association.

**Article 198** The following persons shall not be independent directors of the Company:

- (1) Persons who are employed by the Company or its subsidiaries, or direct and close relatives thereof (direct relatives mean spouses, parents, and offspring, and close relatives include siblings, father-in-law and mother-in-law, daughter-in-law and son-in-law, brother-in-law and sister-in-law, and the siblings of the spouses);
- (2) Natural persons who hold directly or indirectly more than 1% of the Company's issued shares, or who are among the top ten shareholders of the Company, and direct relatives thereof;
- (3) Persons employed by company shareholders which hold directly or indirectly more than 5% of the issued shares of the Company or are among the top five shareholders of the Company, and direct relatives thereof;
- (4) Persons who fell under any of the above three categories in the past one year;
- (5) Persons who provide financial, legal or consultation services to the Company or any of its subsidiaries;
- (6) Other persons specified in these Articles of Association;
- (7) Other persons specified by the China Securities Regulatory Commission.

**Article 199** Independent directors owe a duty of fiduciary and diligence to the Company and its shareholders. They shall perform their duties in accordance with the relevant laws and regulations and these Articles of Association, and shall protect the interests of the Company and in particular prevent encroachment of the rights and interests of minority shareholders.



Independent directors shall perform their duties independently, shall not be influenced by the major shareholders, actual controllers or other interested entities and individuals, and shall ensure that they have sufficient time and ability in efficiently discharging their duties.

The Company shall make up for the required number of independent directors in accordance with regulations if any independent director does not satisfy the requirements of independence or such director cannot perform his duties and functions as an independent director, resulting in insufficient number of independent directors as required.

**Article 200** Nomination, election and replacement of independent directors

- (1) The Board of Directors, the supervisory committee, and shareholder(s) who alone or jointly with other persons hold(s) more than 1% of the issued shares of the Company shall have the right to nominate candidates as independent directors, and the nominated candidates shall become independent directors by election at a shareholders' general meeting.
- (2) The nominator shall have the approval of the proposed candidate for the nomination before making a nomination. The nominator shall have adequate knowledge of the profession, education, professional title and detailed work experience of the nominee as well as status of all his part-time jobs. The nominator shall also comment on the qualification and independence of the nominee as an independent director. The nominee shall make a public statement disclaiming any relationship between him and the Company that will affect his independent judgment. Before the shareholders meeting for the election of independent directors, the Company's Board of Directors shall announce the above information in accordance with the relevant provisions.
- (3) Before convening the shareholders' general meeting for the election of independent directors, the Company shall submit the written opinion of the Board, and the relevant materials of all the nominees to the China Securities Regulatory Commission and its local office as well as the stock exchange at which the Company's shares are listed. Dissenting opinions of the Board with regard to the nominees shall also be submitted. Nominees of independent directors objected by China Securities Regulatory Commission may be candidates of the directors of the Company but not as candidates of independent directors of the Company. At the shareholders' general meeting for the election of independent directors, the Board of Directors shall make clear whether the nominees of independent directors are objected to by China Securities Regulatory Commission.

- (4) The terms of office of the independent directors are the same as those of other directors. Successive terms are allowed upon the expiration of the term, but may not be extended to more than six years.
- (5) An independent director who fails to attend in person two consecutive board meetings shall be deemed as unable to perform his duties and shall be replaced upon the proposal of the Board to the shareholders' general meeting. An independent directors shall not be dismissed without a justification before the expiration of his term, unless the above condition or any of the conditions specifying the disqualification of a director under the Company Law has occurred. When an independent director is dismissed, the Company shall disclose the dismissal as a special disclosable matter and shall give reasons for the dismissal. The independent director may make a public statement if he thinks that such a dismissal is without justification.
- (6) Independent directors may resign before the expiration of their terms. A resigning independent director shall submit written resignation to the Board of Directors. The written resignation shall contain explanations on matters related to his resignation or any other matters which in his opinion, should be brought to the notice of the shareholders and creditors of the Company. If the resignation of an independent director results in the number of independent shareholders or the number of directors constituting the Board of Directors to fall below the quorum or the number required under these Articles of Association, the written resignation of such directors shall become effective only when the vacancy arising from his resignation has been filled by a new independent director. The Board of Directors shall convene a shareholders' general meeting to re-elect an independent director within two months. If shareholders' general meeting cannot be convene within such period, the independent director may cease performing his duty.

**Article 201** Rights and obligations of independent Directors

- (1) To facilitate independent directors to perform their function more efficiently, the independent directors shall have the following special powers, in addition to having those powers granted by the Company Law and other relevant laws and regulations to directors:
  1. Approve connected transactions the aggregate consideration of which is in compliance with the relevant provisions of the existing listing rules and other supervisory regulation in places where the Company is listed and approve the engagement or disengagement of accounting firms before putting forward the same for discussion by the Board of Directors. Before the Independent Directors make a judgment, they may hire an intermediary to issue an independent financial adviser report, which forms the base of their judgments;
  2. Propose to the Board of Directors with respect to engaging or disengaging accounting firms;
  3. Propose to the Board of Directors with respect to the convening of extraordinary general meetings;
  4. Propose the convening of board meetings;
  5. Engage external auditing firms or consultancy firms;
  6. Publicly solicit and collect proxies before the convening of shareholders' general meetings.
- (2) Independent directors shall obtain the consent of over half of all the independent directors in exercising any of the above powers, of which the power referred to in clause (1) (v) of this Article shall be agreed by all independent directors.
- (3) If any of the above proposals has not been adopted or if any the above powers cannot be exercised, the Company shall disclose the relevant information.
- (4) Apart from the powers of an ordinary director and the special powers of an independent director, an independent director shall comply with all provisions in respect of the obligations of a director set forth in these Articles of Association.

**Article 202** Independent directors shall provide their opinions on all the important matters of the Company.

- (1) In addition to the above obligations, independent directors shall provide their independent opinions to the Board of Directors or the shareholders' general meeting on the following matters:
  1. Nomination, appointment and removal of directors;
  2. Appointment and dismissal of senior administrative officers;
  3. Remuneration of directors and senior administrative officers;
  4. Newly occurred transactions, loans and other forms of fund transfer between the Company and its shareholders, actual controllers or their affiliates, the aggregate amount of which is in compliance with the relevant provisions of the existing listing rules and other supervisory regulations in places where the Company is listed, and whether the Company has taken effective measures to collect the amounts due;
  5. Matters which may harm the interests of the minority shareholders;
  6. When the Board of Directors does not put forward a cash dividend plan;
  7. Matters relating to security provided to external parties by the Company;
  8. Other matters provided by these Articles of Association.
- (2) The independent directors shall choose to provide any of the following opinions in respect of the above matters:
  1. Agree;
  2. Reserve opinion and the reasons therefor;
  3. Dissent and the reasons therefor;
  4. Unable to comment and the reasons therefor.
- (3) If the matters concerned fall under those which require disclosure, the company shall publicly disclose the opinions of the independent directors. If the independent directors cannot reach a consensus, the Company shall publicly disclose the opinions of each of the independent directors.

Independent directors shall attend meetings of Board of Directors as scheduled, have an understanding of the production, marketing and operation situation of the Company, take initiative to conduct investigation and obtain the necessary information for making decision. Independent directors shall present their reports to the shareholders' general meeting and explain how they performed their duties.

**Article 203** To ensure that independent directors will be able to perform their duties efficiently, the Company shall provide the following to the independent directors:

- (1) The Company shall ensure that independent directors have the same right of access to information as its other directors. With regard to matters that require board decision, the Company shall serve notice on the independent directors in advance within the prescribed time, and provide sufficient materials. If the independent directors take the view that the materials are insufficient, they may request for supplementary information. When two or more independent directors take the view that the materials are insufficient or are inadequately explained, they may, in writing, jointly propose to the Board for a postponement of the Board meeting or for a postponement of determination of the matters concerned. Such proposal shall be adopted by the Board. Materials provided by the Company to independent directors shall be kept by the Company and the independent directors for at least five years.
- (2) The Company shall provide necessary working conditions to independent directors for the performance of their duties. The board secretary shall give independent directors the necessary assistance liaising with and coordinating the work of the independent directors, including (but not limited to) briefing them on the status of the Company and providing them with the relevant materials. The board secretary shall be responsible for handling the disclosure matters in connection with any independent opinions, proposal or written explanatory statements made or given by the independent directors which shall be disclosed.
- (3) The Company and its relevant personnel shall actively cooperate with the independent directors when the latter perform their duties, and shall provide accurate information to the independent directors and shall not refuse to do so, or prevent the independent directors from access to information or withhold any information, or interfere with the independent directors when they are discharging their duties, or hide information from the independent directors.

- (4) The expenses incurred as a result of the engagement by the independent directors of professional institutions because of the performance of their duties shall be borne by the Company.
- (5) The Company shall pay appropriate subsidies to the independent directors. The rate of such subsidies shall be proposed by the Board and approved by the shareholders' general meeting, and shall also be disclosed in the Company's annual report.

Apart from the above subsidies, independent directors shall not take any extra and undisclosed interests from the Company or from its major shareholders, interested parties and other persons.

**Article 204** The Board of Directors may set up General Committee, Strategy and Investment Committee, Audit and Risk Management Committee, Nomination Committee, Remuneration and Evaluation Committees and Aviation Safety Committee and other special committees. General Committee and each committee shall be comprised of directors, among which, General Committee shall be comprised of Chairman and executive directors, while the majority of Audit and Risk Management Committee, Nomination Committee, Remuneration and Evaluation Committee shall be independent directors and the chairman shall be independent director. In the Audit and Risk Management Committee at least one independent director shall be an accounting professional.

**Article 205** The special committees may engage intermediaries for professional advice, and the expenses incurred shall be borne by the Company.

**Article 206** The special committees are accountable to the Board of Directors, and the proposals made by each of the special committees shall be submitted to the Board of Directors for examination and decision.

**Article 207** The chief powers and functions of each special committee shall be determined in accordance with the relevant regulations of the place where the Company is listed.

## **CHAPTER 12 SECRETARY TO THE BOARD OF DIRECTORS OF THE COMPANY**

**Article 208** The Company shall have a board secretary, who is a senior administrative officer of the Company.

**Article 209** The board secretary of the Company shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board of Directors. The primary responsibilities of the board secretary are:

- (1) to prepare for shareholders' general meetings and board meetings;
- (2) to ensure that Company has maintain complete constitution documents and records;
- (3) to ensure that the Company prepares and delivers in accordance with law those reports and documents required by competent authorities entitled thereto;
- (4) to ensure that the Company's registers of shareholders are properly maintained, and that persons entitled to the Company's records and documents are furnished with such records and documents without delay;
- (5) to arrange for information disclosure and other affairs.

**Article 210** A director or other senior administrative officer of the Company may hold the office of board secretary concurrently. However, president, chief financial officer and the accountant(s) of the certified public accountant firm appointed by the Company shall not act as board secretary.

Provided that where the office of board secretary is held concurrently by a director and an act is required to be done by a director and a board secretary separately, the person who holds the office of director and board secretary may not perform the act in dual capacity.

### **CHAPTER 13 PRESIDENT OF THE COMPANY**

**Article 211** The Company shall have one president, who shall be appointed and dismissed by the Board of Directors. The term of office of the president is three years, which is the same as the Board of Directors, renewable upon re-election. The Company shall have a certain number of vice presidents who will assist the president in his work. The Board of Directors may decide that a member of the Board of Directors will concurrently act as the president.

**Article 212** The president shall be accountable to the Board of Directors and exercise the following functions and powers:

- (1) To be in charge of the Company's production, operation and management and to organise the implementation of the resolutions of the Board of Directors;

- (2) To organise the implementation of the Company's annual business plan and investment plan;
- (3) To draft plans for the establishment of the Company's internal management structure;
- (4) To establish the Company's basic management system;
- (5) To formulate basic rules and regulations for the Company;
- (6) To propose the appointment or dismissal of the Company's vice president(s), chief financial officer and other senior administrative officers;
- (7) To appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board of Directors;
- (8) To request the convening of special meeting of the Board;
- (9) Other powers conferred by these Articles of Association and the Board of Directors.

**Article 213** The president may be present at meetings of the Board of Directors. The president has no voting rights at the board meetings unless he is also a director.

**Article 214** The president and vice presidents, in exercising their functions and powers, shall act honestly and diligently in accordance with laws, administrative regulations, these Articles of Association and the requirements of the rules of working procedures of the Company's president. The president and vice presidents shall not, in exercising their functions and powers, vary the resolutions of shareholders' general meetings and Board meetings or exceed the scope of their authorities. In the event that president and vice presidents violate any laws, regulations and these Articles of Association resulting in losses to the Company, the Board of Directors shall pursue their legal liabilities.

**Article 215** The president shall prepare the rules of working procedures for approval by the Board before implementation. The working procedures of president contain the following:

- (1) Requirements for the convening of, procedures for, and persons attending to the president meeting;
- (2) Respective duties and responsibilities and division of work of president and other senior administrative officers;



- (3) Scope of power of using the funds and assets of the Company and entering into material contracts, and the system of reporting to the Board and the supervisory committee;
- (4) Other matters deemed necessary by the Board.

**Article 216** The president may resign before expiration of his term of office. The specific procedures and measures are subject to the related articles of the service contract between the president and the Company.

**Article 217** The Board of the Company appoints other senior administrative officers based on the nomination of the president.

**Article 218** Article 184 of these Article of Association in relation to the eligibility of the directors also applies to other senior administrative officers; article 186 in relation to the fiduciary obligations of directors and clauses (4) to (6) of Article 187 concerning the diligence obligations also apply to the senior administrative officers of the Company.

**Article 219** For loss borne by the Company due to the breach of laws, administrative regulations, departmental rules and these Articles of Association by the senior administrative staff in the course of performing their duties, the responsible person shall bear the liabilities.

#### **CHAPTER 14 SUPERVISORY COMMITTEE**

**Article 220** The Company shall have a supervisory committee. The supervisory committee shall be composed of three to five supervisors, one of which shall be the chairman. The chairman of the supervisory committee is subject to election or removal with the consent of two thirds or more of the members of the supervisory committee. The chairman of the supervisory committee shall convene and preside over meetings of the supervisory committee. When the chairman of supervisory committee is unable or fails to perform this duties, a supervisor shall be elected by half or more of the supervisors to convene and preside over meetings of the supervisory committee.

**Article 221** The supervisory committee shall comprise of representatives of shareholders and the Company's staff and workers. Not less than one third of them shall be representatives of the staff and workers. Supervisors representing shareholders shall be elected by the shareholders' general meeting from the supervisory committee or from the candidates nominated by shareholders individually or jointly holding 5% or more of the shares carrying the right to vote. Notice of nomination of candidates and the candidates' written agreement to accept the nomination shall be sent to the Company seven days before the shareholders' general meeting.

Except for supervisors for the first supervisory committee and supervisors represented by representatives of staff and workers, supervisors must be elected by shareholders (including shareholders' proxies) representing half or more of the voting rights of the shareholders present at the shareholders' general meeting.

Subject to the provision of the relevant laws and administrative regulations, the shareholders' general meeting may by ordinary resolution remove any supervisor represented by a representative of shareholders before the expiration of his term of office (but without prejudice to such supervisor's right to claim damages based on any contract), provided that the shareholders' general meeting may not remove the supervisor without just cause. Supervisors represented by representatives of staff and workers shall be elected and removed by the staff and workers of the Company democratically.

**Article 222** Meetings of the supervisory committee shall be held at least once every six months every year, and shall be convened by the chairman of the supervisory committee. Notice of meeting shall be sent to each supervisor in writing ten days before the meeting. The notice shall include the date, venue, duration, reasons and topics of the meeting and the date on which the notice is sent. If for any reason the meeting of the supervisory committee cannot be convened as scheduled, an announcement shall be made to explain the reasons.

A special meeting shall be convened by the supervisory committee when:

- (1) it is proposed by supervisors;
- (2) a resolution in violation of the laws, the regulations, the statutes, the provisions and requirements of the supervisory department, the Memorandum and Article of Association, the resolution of shareholders' meeting and other relevant requirements is passed in the general meeting or in board meeting;
- (3) possible material damages to the Company or adverse impact to the market are caused by the inappropriate behavior of the director and the senior management;
- (4) the Company, the director, the supervisor or the senior management is sued by shareholders;
- (5) the Company, the director, the supervisor or the senior management is punished by the securities regulatory organ or is condemned by Shanghai Stock Exchange;
- (6) a request is made by the securities regulatory organ.

**Article 223** The supervisory committee shall be accountable to entire shareholders and exercise the following functions and powers in accordance with law:

- (1) To review the regular reports of the Company prepared by the Board of Directors, and to provide written comments in respect thereof;

- (2) To examine the Company's financial situation;
- (3) To oversee the Company's directors, general managers and other senior officers for any violation of laws, administrative regulations, the Articles of Association or any resolution of shareholders' meetings when performing their duties for the Company, and to propose to remove such directors, general managers and other senior officers;
- (4) To demand rectification from the directors, president or other senior administrative officers when the acts of such persons are harmful to the Company's interest;
- (5) Where there is any abnormality in the Company's operations, to conduct investigations accordingly; and when necessary, to engage professionals such as accountant firms or law firms to assist in the work, at the cost of the Company;
- (6) To propose the convening of extraordinary shareholders' meetings and, in the event the Board of Directors fails to perform their duties to convene and preside over the shareholders' meeting in accordance with the Company Law, to convene and preside over the shareholders' meeting;
- (7) To submit proposals to the shareholders' meeting;
- (8) To initiate legal proceedings against the directors and senior officers pursuant to the provisions contained in Article 151 of the Company Law;
- (9) To supervise the establishment and implementation of internal control by the Board of Directors;
- (10) Other functions and powers specified in these Articles of Association. Members of the supervisory committee shall attend as non-voting members at meetings of the Board of Directors.

Other functions and powers of the supervisory committee shall be determined in accordance with the laws and regulations of the place where the Company is listed.

**Article 224** Method of discussion and voting procedures of the supervisory committee shall follow the rules of procedures of the supervisory committee. The rules of procedures of the supervisory committee, as an appendix of these Articles of Association, shall be drafted by the supervisory committee and approved by the shareholders' general meeting.

**Article 225** Resolutions of the supervisory committee shall be passed by two-thirds or more of all of its members.

**Article 226** Notice of supervisory committee meetings shall contain:

- (1) the date and venue of the meeting;
- (2) the matters to be discussed (the agendas);
- (3) the convener and the chairman of the meeting, the person who proposes the special meeting and his/her written proposal;
- (4) the materials necessary for the supervisors to vote in the meeting;

- (5) the request for the personal attendance of the supervisors;
- (6) the contact person and the method of contact.

Oral notice shall at least include the details of item (1) and (2) and the reason for convening an urgent special supervisory committee meeting with short notice.

- Article 227** The supervisory committee meetings shall keep minutes of meeting. Supervisors present at the meeting and the person taking the minutes shall sign on the meeting minutes. Supervisors can request to have the speech they make in the meeting recorded in the minutes. The meeting minutes of supervisory committee shall be safely and properly kept as an important file of the Company. The meeting minutes of supervisory committee shall be kept as a file of the Company for ten years.
- Article 228** All reasonable fees incurred in respect of the employment of professionals such as lawyers, certified public accountants or practicing auditors by the supervisory committee in exercising its functions and powers shall be borne by the Company.
- Article 229** Supervisors shall be elected and removed by the shareholders' general meeting with a term of office of three years. Supervisors (including by-elected supervisors) shall have a term commencing on the date of the resolution of the shareholders' general meeting or the staff and workers representative meeting and expiring upon conclusion of the tenure of the supervisory committee. Upon expiry of his term, a supervisor shall be eligible for re-election.
- Article 230** Supervisors shall carry out their duties honestly and faithfully in accordance with laws, administrative regulations and these Articles of Association. Supervisors shall not abuse their authority of office to obtain bribes or other illegal income and not to misappropriate the property of the Company.
- Article 231** Where no re-election is made in time upon expiry of the term of a supervisor, or any supervisors resigns resulting in the number of members of the supervisory committee below the statutory number, the original supervisor shall, prior to a new supervisor entering on the office, continue to perform his duties as a supervisor in accordance with laws, administrative regulations and these Articles of Association.
- Article 232** Supervisors shall ensure that the information disclosed by the Company is true, accurate and complete.
- Article 233** Supervisors shall attend as nonvoting members meetings of the Board of Directors and have the right to inquire or put forward suggestions on resolutions of the Board of Directors.
- Article 234** Supervisors shall not exploit their Connected Relationship with the Company to harm the interests of the Company. If they have violated such provision and caused damage to the company, they are liable for compensation.

Article 184 of these Article of Association in relation to the eligibility of the directors also applies to supervisors.

**Article 235** Directors, president and other senior administrative officers of the Company shall not act concurrently as supervisors.

**Article 236** Where a supervisor violates any laws, administrative regulations, departmental rules or the provisions of these Articles of Association in the course of performing his duties and causes loss to the Company, such supervisor shall be liable for compensation.

**CHAPTER 15 QUALIFICATIONS AND DUTIES OF THE  
DIRECTORS, SUPERVISORS, PRESIDENT AND OTHER SENIOR  
ADMINISTRATIVE OFFICERS OF THE COMPANY**

**Article 237** A person may not serve as a director, supervisor, president and other senior administrative officers of the Company if any of the circumstances of Article 184 in these Articles of Association applies.

Persons who hold positions other than directors in any entity of the controlling shareholders or beneficial controller shall not be appointed as senior management personnel of the Company, unless there is an exemption approved by the CSRC. The personnel of the Company shall be independent from its controlling shareholders or beneficial controller. Any senior management personnel of the Company's controlling shareholder who serves concurrently as a director of the Company shall ensure that he/she has sufficient time and effort to work for the Company.

**Article 238** The validity of an act of a director, president or other senior administrative officer on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

**Article 239** In addition to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors, supervisors, president and other senior administrative officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) Not to cause the Company to exceed the scope of business stipulated in its business license;
- (2) To act honestly in the best interests of the Company;
- (3) Not to expropriate in any guise the Company's property, including but not limited to usurpation of opportunities advantageous to the Company;

- (4) Not to expropriate the individual rights of shareholders, including but not limited to rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders for approval in accordance with these Articles of Association.

**Article 240** Each of the Company's directors, supervisors, president and other senior administrative officers owes a duty, in the exercise of his powers and discharge of his obligations, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Company's directors (including those intending to act as independent directors) shall take an active part in training in order to understand the rights, obligations and responsibilities as directors, learn about relevant laws and regulations and master relevant knowledge required of a director.

**Article 241** Each of the Company's directors, supervisors and any other senior administrative officers shall exercise his powers or perform his duties in accordance with the principle of fiduciary; and shall not put himself in a position where his duty and his interest may conflict. This principle applies to include but not limited to discharging the following obligations:

- (1) To act honestly in the best interests of the Company;
- (2) To exercise powers within the scope of his powers and not to exceed those powers;
- (3) To exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in shareholders' general meeting, not to delegate the exercise of his discretion;
- (4) To treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) Except in accordance with these Articles of Association or with the informed consent of shareholders given in shareholders' general meeting, not to enter into any contract, transaction or agreement with the Company;
- (6) Without the informed consent of shareholders given in shareholders' general meeting, not to use the Company's property for his own benefit;

- (7) Not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including but not limited to opportunities advantageous to the Company;
- (8) Without the informed consent of shareholders given in shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- (9) To abide by these Articles of Association, perform his official duties faithfully and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (10) Not to compete with the Company in any way unless with the informed consent of shareholders given in shareholders' general meeting;
- (11) Not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets;
- (12) Unless otherwise permitted by informed shareholders in shareholders' general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:
  1. disclosure is made under compulsion of law;
  2. the interests of the public require disclosure;
  3. the interest of the relevant director, supervisor, president or other senior administrative officers require disclosure.

**Article 242** Each director, supervisor, president and any other senior administrative officer of the Company shall not cause the following persons or institutions ("associates") to do what he is prohibited from doing:

- (1) The spouse or minor child of that director, supervisor, president and other senior administrative officer;

- (2) A person acting in the capacity of trustee of that director, supervisor, president or other senior administrative officer or any person referred to in clause (1) of Article 240;
- (3) A person acting in the capacity of partner of that director, supervisor, president or other senior administrative officer or any person referred to in clauses (1) and (2) of Article 240;
- (4) A company in which that director, supervisor, president or other senior administrative officer, alone or jointly with one or more persons referred to in clause (1) to (3) of Article 240 and other directors, supervisors, president and other senior administrative officers have a de facto controlling interest;
- (5) The directors, supervisors, president and other senior administrative officers of the controlled company referred to in clauses (4) of Article 240.

**Article 243** The fiduciary duties of the directors, supervisors, president and other senior administrative officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

**Article 244** Except as provided in Article 70 hereof, a director, supervisor, president and any other senior administrative officer of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a shareholders' general meeting.

**Article 245** Where a director, supervisor, president and any other senior administrative officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the Board of Directors.



Unless the interested director, supervisor, president and other senior administrative officer discloses his interests in accordance with this Article and the contract, transaction or arrangement is approved by the Board of Directors at a meeting in which the interested director, supervisor, president or other senior administrative officer is not counted in the quorum and has abstained from voting, a contract, transaction or arrangement in which that director, supervisor, president and other senior administrative officer is materially interested is avoidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director, supervisor, president or other senior administrative officer. For the purposes of this Article, a director, supervisor, president and other senior administrative officer of the Company is deemed to be interested in a contract, transaction or agreement in which an associate of him is interested.

**Article 246** Where a director, supervisor, president and other senior administrative officer of the Company gives to the Board of Directors a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

**Article 247** The Company shall not in any manner pay taxes for or on behalf of a director, supervisor, president and any other senior administrative officer.

**Article 248** The Company shall not directly or indirectly make a loan to or provide any guarantee in connect with the making of a loan to a director, supervisor, president and other senior administrative officer of the Company or of the Company's holding company or any of their respective associates. However, the following transactions are not subject to such prohibition:

- (1) The provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- (2) The provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, supervisors, president and other senior administrative officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in shareholders' general meeting;

- (3) The Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, president and other senior administrative officers or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

**Article 249** A loan made by the Company in breach of Article 248 shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

**Article 250** A guarantee for repayment of loan provided by the Company in breach of Article 248 shall not be enforceable against the Company, unless:

- (1) the guarantee was provided in connection with a loan to an associate of any of the directors, supervisors, president and other senior administrative officers of the Company or of the Company's holding company and at the time the loan was advanced the lender did not know the relevant circumstances; or
- (2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

**Article 251** For the purpose of the foregoing provisions of this Chapter, a "guarantee" includes an undertaking or property provided to secure the performance of obligations by the obligor.

**Article 252** In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, president or other senior administrative officer of the Company is in breach of his duties to the Company, the Company has a right to:

- (1) claim damages from the director, supervisor, president and other senior administrative officer in compensation for losses sustained by the Company as a result of such breach;
- (2) rescind any contract or transaction entered into by the Company with the director, supervisor, president and other senior administrative officer or with a third party (where such third party knows or should know that there is such a breach of duties by such director, supervisor, president and other senior administrative officer);
- (3) demand an account of the profits made by the director, supervisor, president and other senior administrative officer in breach of his duties;

- (4) recover any monies received by the director, supervisor, president and other senior administrative officer which should otherwise have been received by the Company, including but not limited to commissions; and
- (5) request such director, supervisor, president and other senior administrative officer to return the interests accrued or may be accrued on the monies which should have been paid to the Company.

**Article 253** The Company shall, with the prior approval of shareholders in shareholders' general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments shall include:

- (1) the emoluments in respect of his service as director, supervisor or senior administrative officer of the Company;
- (2) the emoluments in respect of his service as director, supervisor or senior administrative officer of any subsidiary of the Company;
- (3) the emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) the payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a director or supervisor against the Company for the benefits due to him in respect of the matters mentioned in this Article.

**Article 254** The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event of a takeover of the Company, the Company's directors and supervisors shall, subject to the prior approval of the shareholders in shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A takeover of the Company referred to in this paragraph means any of the following:

- (1) An offer made by any person to all the shareholders;

(2) An offer made by any person with a view to the offeror becoming a “controlling shareholder” within the meaning of Article 71.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of the acceptance of said offer. The expense incurred in distributing that sum pro rata amongst those persons shall be borne by the relevant director or supervisor and not paid out of that sum.

**Article 255** With the approval of shareholders’ general meeting, the Company may buy liability insurance for directors, supervisors, president and other senior administrative officers of the Company with the exception of those liabilities resulting from violation of laws, regulations and these Articles of Association.

## CHAPTER 16 PARTY COMMITTEE

**Article 256** The Company shall establish the Party Committee consisting of one secretary and several other members. The chairman of the Board of Directors and the secretary of the Party Committee shall be assumed by the same person in principle and the Party Committee shall set up a special position of deputy secretary who mainly takes in charge of the work of Party’s building. Eligible members of the Party Committee may join the Board of Directors, the Supervisory Committee and the management through legal procedures, and eligible Party members in the Board of Directors, the Supervisory Committee and the management may join the Party Committee in accordance with relevant regulations and procedures. Meanwhile, the Company shall establish the Discipline Committee in accordance with relevant regulations.

**Article 257** The Party Committee of the Company shall perform its duties in accordance with the regulations of the Party including the Constitution of Communist Party of China (《中國共產黨章程》) and Regulations for the Work of the Communist Party of China (《中國共產黨黨委工作條例》).

(1) To monitor the implementation of the principles and policies of the Party and of the country within the Company, and to implement material strategic decisions made by the Central Committee of the Party and the State Council, as well as other important deployment of works assigned by the Party committee of the State-owned Assets Supervision and Administration Commission and Party organizations of higher levels.

(2) To persist in combining the principle of administration of officers by the Party with the legitimate selection by the Board of the managers and the legitimate use of human resources by the managers. The Party Committee shall consider and provide opinions on the candidates nominated by the Board of Directors or the general manager, or recommend nominees to the Board of Directors or the general manager; evaluate the proposed candidates in conjunction with the Board of Directors, collectively consider and make suggestions.

(3) To consider and discuss the matters on the reform, development and stability of the Company, major operation and management matters as well as key issues involving the vital interests of employees, and make suggestions.

(4) To take full responsibility for the strict discipline of the Party. To take the lead on the ideological and political work, united front work, construction of spiritual civilization, construction of enterprise culture and the work of the trade union and the Communist Youth League and other mass groups and organizations. To take the lead on improving Party conduct and upholding integrity and to support the performance by the Discipline Committee of its supervision duties.

## **CHAPTER 17 FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDITING**

**Article 258** The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and the PRC accounting standards formulated by the finance regulatory department of the State Council.

**Article 259** At the end of each fiscal year, the Company shall prepare a financial report, which shall be examined and verified as provided by law.

- (1) Balance sheet;
- (2) Profit and loss statement;
- (3) Statement of financial changes;
- (4) Explanation of financial conditions;
- (5) Profit distribution statement.

**Article 260** The Board of Directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities to be prepared by the Company.

**Article 261** The Company's financial reports shall be made available for shareholders' inspection at the Company twenty days before the date of every annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each shareholder of Overseas Listed Foreign Shares by prepaid mail at the address registered in the register of shareholders the said report not later than twenty-one days before the date of every annual general meeting.

**Article 262** The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted. According to the relevant laws and regulations, profit distribution by the Company shall be based on the distributable profit of its parent company (non-consolidated statements).

**Article 263** Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with the PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place where the Company's shares are listed.

**Article 264** The Company shall publish its quarterly financial report, interim financial report and annual financial report every fiscal year. The quarterly reports shall be prepared within thirty days after the first quarter and the third quarter, respectively. The interim report shall be published within sixty days after the first six months of the fiscal year and the annual report shall be published within 120 days after the expiration of the fiscal year.

**Article 265** The Company shall not keep accounts other than those provided by law. Assets of the Company shall not be deposited in an account maintained in the name of any individual.

**Article 266** The Company's after-tax profit shall be distributed in accordance with the following order:

- (1) Making up for losses;
- (2) Allocation to the statutory common reserve fund;
- (3) Allocation to the discretionary common reserve fund;
- (4) Payment of dividends in respect of ordinary shares.

The Board of Directors shall, in accordance with the laws and administrative regulations of the State (if any) and the Company's operation and development requirements, determine the specific proportions of profit distributions in clauses (3) to (4) of Article 262 and submit its determination to the shareholders' general meeting for approval.

**Article 267** When distributing each year's after-tax profits, the Company shall set aside 10% of such profits for the Company's statutory common reserve fund, except where the accumulated balance of the said fund has reached 50% of the Company's registered capital.

Where the balance of the Company's statutory common reserve fund is insufficient to make up for the losses incurred in the previous year, the Company shall apply the current year's profits to recover such losses before allocating any such profits to the statutory common reserve fund as aforementioned.

After the Company has allocated its after-tax profits to the statutory common reserve fund, it may, with the approval of the shareholders by way of resolution in a shareholders' general meeting, further allocate its after-tax profits to the discretionary common reserve fund.

After the Company has recovered its losses and made allocations to its common reserve fund, the remaining profits shall be distributed to the shareholders in proportion to their respective shareholdings, except where distribution by such proportion is not required under these Articles of Association.

Where the profit is distributed to the shareholders by the general meeting or the Board of Directors before making-up for losses and transfer to the statutory common reserve in violation of the above provisions, the profit so illegitimately distributed shall be returned to the Company.

No profit shall be distributed in respect of the shares held by the Company.

**Article 268** Capital common reserve fund includes the following:

- (1) Premium on shares issued at a premium price;
- (2) Any other income designated for the capital common reserve fund by the regulations of the finance regulatory department of the State Council.

**Article 269** The common reserve fund of the Company shall be applied to make up losses, expand the Company's production and operation or increase the Company's capital. However, capital common reserve fund shall not be used to make up losses. When the Company converts its common reserve fund into its capital upon a resolution adopted in shareholders' general meeting, the Company shall either distribute new shares in proportion to the shareholders' number of shares, or increase the par value of each share, provided, however, that when the statutory common reserve fund is converted to capital, the balance of the statutory common reserve fund may not fall below 25% of the registered capital.

**Article 270** Dividends shall be distributed in accordance with the proportion of shares held by shareholders.

Unless otherwise resolved by the shareholders' general meeting, the Company may, apart from distributing annual dividends, distribute interim dividends by its Board of Directors acting under the power conferred by the shareholders' general meeting. Unless otherwise stipulated by laws or administrative regulations, the amount of interim dividends distributed shall not exceed 50% of the distributable profits as stated in the interim profits statement of the Company.

**Article 271** (1) Procedures for decision-making on profit distribution by the Company: After the end of each accounting year, the board of directors shall propose a profit distribution plan and the independent directors shall express their independent opinions thereon. After which the profit distribution plan shall be proposed to the general meeting for voting. Implementation of the profit distribution plan shall be subject to completion of administrative and approval procedures (if required).

(2) If the Company records a profit for the reporting period and the balance of unallocated profit is positive but no cash dividends plan has been proposed, the Company shall provide an internet voting platform for shareholders.



(3) The supervisory committee of the Company shall monitor the execution of profit distribution policy and the planning and decision-making procedures for shareholder return carried out by the board of directors and the management. In formulating the profit distribution policy of the Company, the opinions and requests of the shareholders, especially those of the minority shareholders, shall be extensively consulted, and the concerns of minority shareholders shall be addressed in a timely manner.

(4) The Company shall disclose in details its formulation and implementation of cash dividends policy in its regular published reports; should there be any adjustment or change to the cash dividends policy, detailed descriptions shall be provided on the regulatory compliance regarding the conditions and procedures for such adjustment or change. If the Company records a profit for the year and the balance of unallocated profit is positive but no cash dividends plan has been proposed, the Company shall, in its annual report, describe in details the reason for not proposing a cash dividends, as well as the purpose and usage plan for cash retained in the Company that is not distributed as cash dividends.

(5) In the event that the profit distribution policy needs to be adjusted by reason of promulgation of new requirements on the profit distribution policy of listed companies by PRC laws and regulations and securities regulatory authorities, or due to significant changes of external operating environment or operating condition of the Company, for the purpose of protecting the interests of the shareholders, the directors of the Company shall carefully examine and describe the reasons for such adjustment and strictly follow the decision-making procedures. In the event of amendments to the profit distribution policy of the Company, the board of directors shall consider the revised plan and the independent directors shall express their independent opinions thereon. Such amendments shall be disclosed to the public upon consideration and approval at the general meeting by more than two-thirds of the shareholders present at the meeting.

**Article 272** The Company adopts the following profit distribution policy:

(1) Principles of profit distribution by the Company: Provided that the long-term and sustainable development of the Company are ensured, the profit distribution policy of the Company should pay close attention to ensuring a reasonable return of investment to investors and establishing a firm intention of rewarding the shareholders, and such profit distribution policy should maintain its continuity and stability.

(2) Ways of profit distribution by the Company: The Company may distribute dividends by way of cash, a combination of cash and shares or in other reasonable manners in compliance with laws and regulations.

(3) Conditions and proportion of distribution of cash dividends by the Company: Conditional upon the Company being profitable for the year and after allocation to the statutory common reserve fund and discretionary common reserve fund as required, and there are no exceptional matters including material investment plans or material cash outflows (material investment plans or material cash outflows refer to proposed external investments, acquisition of assets or purchase of equipment in the coming 12 months that in aggregate constitute expenditure exceeding 30% of the net assets of the Company as shown in the latest audited consolidated statements) and there has not incurred any material losses (losses in the amount exceeding 10% of the net assets of the Company as shown in the latest audited consolidated statements), the Company shall distribute cash dividends out of profit in an amount not less than 10% of the distributable profit for the year (i.e. profit realized for the year after making up for losses and allocation to reserve fund). The accumulated payment of dividend by way of cash for the last three years may not be less than 30% of the Company's average distributable profit for the last three years. The accumulated payment of dividend by way of cash for the coming three years may not be less than 30% of the Company's average distributable profit for such three years.

(4) Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall in principle distribute profit on an annual basis, and interim profit may also be distributed based on the profitability and capital requirement conditions of the Company.

(5) Conditions of profit distribution by way of share dividends: Provided that the minimum proportion of distribution of cash dividends is met and reasonable scale of share capital and shareholding structure of the Company are ensured, and with particular attention paid on keeping the steps of capital expansion in pace with the growth in operation results, if there are special circumstances which prevent distribution by way of cash, the Company may consider distributing profit by way of share dividends as a return to investors after consideration of its profitability and cash flow position and performance of the procedures required by the Articles. Where the Company made a payment of dividend satisfied by an allotment of new shares or completed conversion of capital common reserve fund into capital, the Company may elect not to distribute dividend by way of cash in the same year, and that year is not counted in the three years as stated above in this Article.

**Article 273** Upon resolution on the profit distribution plan or the resolution on the proposed bonus share issue by way of conversion of capital reserve is approved at the shareholders' general meeting, the Board of Directors shall complete the subject matters within two months after consideration and approval by the general meeting and all administrative approvals (if necessary) are obtained.

**Article 274** The Company shall, in accordance with the PRC tax law, withhold and make payments on behalf of shareholders in respect of their tax payable on their dividends income.

**Article 275** The Company shall appoint on behalf of the holders of the Overseas Listed Foreign Shares receiving agents to receive on behalf of such shareholders dividends declared and all other monies owing by the Company in respect of their shares. The receiving agents appointed by the Company shall comply with the relevant requirements of the law of the place and relevant regulations of the stock exchange where the Company's shares are listed. The receiving agents appointed on behalf of holders of Overseas Listed Foreign Shares listed in Hong Kong (H Shares) shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

**Article 276** Dividends or other payments declared by the Company to be payable to holders of Domestic Shares shall be declared and calculated in RMB, and paid in RMB; and those payable to holders of Overseas Listed Foreign Shares shall be declared and calculated in RMB, and paid in the local currency at the place where such Overseas Listed Foreign Shares are listed (if there is more than one place of listing, then the principal place of listing as determined by the Board of Directors). The conversion formula of foreign currency is as follows:

$$\begin{array}{ccc} & & \text{Dividends or other sums} \\ & & \text{to holders in RMB} \\ & & \hline \text{Conversion price of} & = & \text{The mean of the exchange rates for each unit of the foreign currency against} \\ \text{dividends or other sums to} & & \text{RMB as announced by the People's Bank of China for the calendar week} \\ \text{holders} & & \text{preceding the date on which such dividends or other sums to holders are} \\ \text{in foreign currency} & & \text{declared by the Company} \end{array}$$

**Article 277** The Company shall implement an internal audit system, and shall establish an internal audit department or retain auditors to conduct internal audit of its income and expenditure and financial activities under the supervision of the supervisory committee.

**Article 278** The internal audit system and the terms of reference of the auditors are implemented under the approval of the Board. The auditors are required to report to the Board.

#### **CHAPTER 18 APPOINTMENT OF ACCOUNTANT FIRM**

**Article 279** The Company shall appoint an independent accountant firm which is qualified under the relevant regulations of the State to audit the Company's annual report and review the Company's other financial reports.

The first accountant firm of the Company may be appointed by the inaugural meeting of the Company before the first annual general meeting. The accountant firm so appointed shall hold office until the conclusion of the first annual general meeting.

If the inaugural meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the Board of Directors.

**Article 280** The accountant firm appointed by the Company shall hold office from the conclusion of the annual general meeting until the conclusion of the next annual general meeting, and the appointment may be renewed.

**Article 281** The accountant firm appointed by the Company shall have the following rights:

- (1) A right to inspect the books, records and vouchers of the Company at any time, the right to require the directors, president, vice president or other senior administrative officers of the Company to supply relevant information and explanation;
- (2) A right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the purpose of discharging its duties;
- (3) A right to attend shareholders' general meetings and to receive all notices of, and other communications relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's accountant firm.

**Article 282** The company shall provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

**Article 283** If there is a vacancy in the position of auditor of the Company, the Board may engage an accounting firm to fill such vacancy before the convening of the shareholders' general meeting. Any other accountant firm which has been engaged by the Company may continue to act during the period during such a vacancy exists.

**Article 284** Notwithstanding the stipulations in the contract between the Company and the accountant firm, the shareholders in shareholders' general meeting may by ordinary resolution remove an accountant firm before the expiration of its term of office, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

**Article 285** The remuneration of an accountant firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in shareholders' general meeting. The remuneration of an accountant firm appointed by the Board of Directors shall be determined by the Board of Directors.

**Article 286** The Company's appointment, removal and non-reappointment of an accountant firm shall be resolved upon by shareholders in shareholders' general meeting. The resolution of the shareholders' general meeting shall be filed with the securities governing authority of the State Council.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accountant firm which is not an incumbent firm to fill a casual vacancy in the office of the accountant firm, re-appointment of a retiring accountant firm which was appointed by the Board of Directors of the Company to fill a casual vacancy, or removal of the accountant firm before the expiration of its term of office, the following provisions shall apply:

- (1) A copy of the proposal shall be sent before notice of meeting is given to the shareholders to the accountant firm proposed to be appointed or proposing to leave its post, or the accountant firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).

- (2) If the accountant firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):
  1. in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
  2. deliver a copy of the representations to each shareholder who is entitled to receive the notice of shareholders' general meeting.
- (3) If the accountant firm's representations are not sent in accordance with clause (2) of Article 281, the relevant accountant firm may (in addition to its right to be heard) require that the representations be read out at the meeting.
- (4) An accountant firm which is leaving its post shall be entitled to attend:
  1. the shareholders' general meeting at which its term of office would otherwise have expired;
  2. any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal;
  3. any shareholders' general meeting convened on its resignation.

An accountant firm which is leaving its post shall be entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meetings in relation to matters concerning its role as the former accountant firm of the Company.

**Article 287** Prior to the removal or the non-renewal of the appointment of the accountant firm, notice of such removal or non-renewal shall be given to the accountant firm and such firm shall be entitled to make representation at the shareholders' general meeting. Where the accountant firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

An accountant firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (1) A statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) A statement of any such circumstances.

Where a notice is deposited as mentioned in the preceding paragraph, the Company shall within fourteen days send a copy of the notice to the relevant governing authority. If the notice contains a statement under clause (2) of Article 282, a copy of such statement shall be placed at the Company for the inspection of shareholders. The Company shall also send a copy of such statement by prepaid mail to every holder of Overseas Listed Foreign Shares at the address registered in the register of shareholders.

Where the accountant firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of the Company, it may require the Board of Directors to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

#### **CHAPTER 19 CAPITAL FLOW BETWEEN THE COMPANY AND ITS RELATED PARTIES AND EXTERNAL GUARANTEE PROVIDED BY THE COMPANY**

**Article 288** Fund transactions between the Company and controlling shareholders and other related parties shall be subject to the following regulations:

- (1) Use of funds of the Company shall be strictly limited during transaction of operating funds between the Company and controlling shareholders and other related parties. Controlling shareholders and other related parties shall not request the Company to pay for their salaries, benefits, insurance and advertisement during the period, nor shall the parties undertake any cost or other outgoings for each other.
- (2) The Company shall not directly or indirectly provide funds for use by controlling shareholders or other related parties by:
  1. lending the Company's funds with or without consideration for use by controlling shareholders or other related parties;
  2. assignment of loans for related parties through banks or non-banking financial bodies;
  3. entrusting controlling shareholders or other related parties to carry out investments;
  4. issuance of commercial acceptance notes without real transactions background for controlling shareholders or other related parties;

5. repaying debts for controlling shareholders or other related parties;
  6. other means as prohibited by China Securities Regulatory Commission.
- (3) During auditing work for the Company's annual financial reports, the certified public accountants shall, based on the aforesaid regulations, present their specific explanation on particulars of the usage of fund of the Company by controlling shareholders or other related parties, while the Company shall accordingly publish the specific explanation.

**Article 289** All directors of the Company shall perform due diligence on and strictly control liability risks incurred as a result of external guarantee, and shall by law accept related liability for loss arising from contravening or improper external guarantee. Controlling shareholders and other related parties shall not force the Company to provide guarantee to others.

**Article 290** The Company shall provide external guarantee (including assets pledge) based on the principles of fairness, willingness, sincerity and mutual benefits. The procedure for approval of external guarantee provided by the Company is as follows:

- (1) As required by the PRC laws and regulations and the listing rules of stock exchange in the place where the Company's shares are listed, the Company's external guarantee shall be subject to written consent by two thirds of all members of the Board of Directors or approval from shareholders' general meetings. Scope of authority of the Board of Directors is provided in the Company's "Rules of Procedures for Board of Directors";
- (2) Prior to decision on provision of guarantee to external parties (or before it is submitted to the shareholders' general meeting for voting), the Board of Directors of the Company shall be well informed of particulars of the debtors, and completely analyse and fully disclose in the relevant announcements the benefits and risks from such guarantee;
- (3) When a resolution in relation to external guarantee is to be passed at the shareholders' general meeting or by the Board of Directors, any shareholders or directors that have a conflict of interests with such guarantee shall abstain from voting;



- (4) Where the Company provides guarantee to any external parties, counter guarantee or other preventive measures shall be sought from the secured party who in turn shall be able to undertake the counter guarantee;
- (5) The Company shall duly perform its duty to strictly disclose information on external guarantee according to the relevant provisions of listing rules and these Articles of Association, and shall truthfully provide all information relating to external guarantee of the Company to the certified public accountants;
- (6) The Company's independent directors shall in the annual report present specific explanation and independent opinions on the Company's accumulated and current external guarantee and implementation of regulations as referred above.

**Article 291** Consideration and approval in the general meeting is required for the following external guarantees provided by the Company:

- (1) Guarantee which is given after the total amount of the external guarantee provided by the Company and its controlling subsidiaries exceeds 50% of net assets as shown in its latest audited consolidated financial statement of the company ;
- (2) When aggregated with the amount of guarantees incurred in the preceding 12 consecutive months, guarantee which is given after the total amount of external guarantees given by the Company which is equal to or exceed 30% of the latest audited total assets of the Company;
- (3) Guarantee which is provided in favour of an object which has an asset to liability ratio exceeding 70%;
- (4) Guarantee of which the single guarantee amount exceeds 10% of the latest audited net assets of the Company;
- (5) Guarantee which is provided to shareholders, Actual Controller and their respective connected persons;
- (6) Any other guarantees which are subject to approval at the shareholders' general meeting as stipulated by laws, regulations and the listing rules of the stock exchange where the Company is listed.

## CHAPTER 20 INSURANCE

**Article 292** The types of coverage, the insured amounts and periods of the Company's insurance shall be decided at a board meeting based on the circumstances of the Company and the practices of similar industries in other countries and the practice and legal requirements in China.

## CHAPTER 21 LABOUR AND PERSONNEL MANAGEMENT SYSTEMS

**Article 293** The Company shall, in accordance with the relevant provisions of the Labor Law of People's Republic of China and other relevant laws or regulations of the State, formulate its labor and personnel management systems, which shall be appropriate to its particular circumstances.

## CHAPTER 22 TRADE UNION

**Article 294** The Company shall establish trade union organisations and organise staff and workers to carry out trade union activities in accordance with the Trade Union Law of the People's Republic of China.

The Company shall allocate funds to the trade union in accordance with the Trade Union Law of the People's Republic of China. Such fund shall be used by the trade union of the Company in accordance with the "Measures for the Management of trade Union Funds" formulated by the All China Federation of Trade Unions.

## CHAPTER 23 MERGER AND DIVISION OF THE COMPANY

**Article 295** In the event of the merger or division of the Company, a plan shall be presented by the Company's Board of Directors and shall be approved in accordance with the procedures stipulated in Articles of Association before processing the relevant examining and approving formalities as required by law. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire that dissenting shareholder's shareholding at a fair price. The contents of the resolution of merger or division of the Company shall be made into special documents for shareholders' inspection.

Such special documents shall be sent by mail to holders of Overseas Listed Foreign Shares.

**Article 296** The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

A company that absorbs other company is known as merger by absorption whereby the company being absorbed shall be dissolved. The merger of two or more companies by the establishment of a new company is known as merger by the establishment of a new company whereby the merged companies shall be dissolved.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days of the date of the Company's merger resolution and shall publish a public notice in a newspaper at least three times within thirty days of the date of the Company's merger resolution to merge. A creditor has the right within thirty days of receiving such notice from the Company or, for creditors who do not receive the notice, within forty-five days of the date of the first public notice, to demand that the Company repay its debts to that creditor or provide a corresponding guarantee for such debt. Where the company fails to repay its debts or provide corresponding guarantee for such debts, it may not be merged.

After the merger, rights in relation to debtors and indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

**Article 297** When the Company is divided, its assets shall be split up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days of the date of the Company's resolution to divide and shall publish a public notice in a newspaper at least three times within thirty days of the date of the Company's resolution to divide. A creditor has the right within thirty days of receiving such notice from the Company or, for creditors who do not receive the notice, within forty-five days of the date of the first public notice to demand that the Company repay its debts to that creditor or provide a corresponding guarantee for such debt. Where the Company fails to repay its debts or provide corresponding guarantees for such debts, it may not be divided.

Debts of the Company prior to division shall be jointly assumed by the companies which exist after the division, except provided otherwise in the agreement reached between the Company and the creditors relating to the repayment of debt before the division.

**Article 298** Changes in registration particulars of the companies caused by merger or division must be registered with the companies registration authorities in accordance with law. Cancellation of a company shall be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated in accordance with law.

#### **CHAPTER 24 DISSOLUTION AND LIQUIDATION OF THE COMPANY**

**Article 299** The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (1) A resolution for dissolution is passed by shareholders at the shareholders' general meeting;
- (2) Dissolution is necessary due to a merger or division of the Company;
- (3) The Company is legally declared insolvent due to its failure to repay debts due;
- (4) The Company is ordered to close down or withdraw because of its violation of laws and administrative regulations;
- (5) Other reasons of dissolution specified by the laws and regulations of the PRC and these Articles of Association.

**Article 300** Where the company is dissolved under clause (1), (2) of Article 294, liquidation must commence with the establishment of a liquidation committee within 15 days. Members of the liquidation committee shall be appointed by the shareholders in a shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the creditors can apply to the People's Court, requesting the court to appoint relevant personnel to form the liquidation committee.

Where the Company is dissolved under clause (3) of Article 294, the People's Court shall in accordance with provisions of the relevant laws organise the shareholders, the relevant organisations and professional personnel to establish a liquidation committee to carry out liquidation procedures.

Where the Company is dissolved under clause (4) of Article 294, the relevant governing authorities shall organise the shareholders, the relevant organisations and professional personnel to establish a liquidation committee to carry out liquidation procedures.

**Article 301** Where the Board of Directors proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, it shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board of Directors is of the opinion that the Company will be able to pay its debts in full within twelve months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board of Directors shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the shareholders' general meeting on completion of the liquidation.

**Article 302** The liquidation committee shall within ten days of its establishment send notice to creditors, and shall within sixty days of its establishment publish a public notice in a newspaper at least three times. A creditor shall within thirty days of receiving the notice, or for any creditors who do not receive the notice, within forty-five days of the date of the first public notice, report his creditors' rights to the liquidation committee.

When reporting creditors' rights, the creditor shall provide an explanation of matters relevant to his creditor's rights and shall provide materials as evidence. The liquidation committee shall carry out registration of creditors' rights.

During the period of registration of creditors' rights, the liquidation committee shall not repay the debt to creditors.

**Article 303** During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (1) To sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (2) To send notices to creditors or notify them by public notice;

- (3) To dispose of and liquidate any relevant unfinished business matters of the Company;
- (4) To pay all outstanding taxes;
- (5) To settle claims and debts;
- (6) To deal with the assets remaining after the Company's debts have been repaid;
- (7) To represent the Company in any civil litigation proceedings.

**Article 304** After sorting out the Company's assets and the preparation of the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and represent it to the shareholders' general meeting or the People's Court for confirmation.

If the company's assets are sufficient to meet its liabilities, they shall be applied in the following order: payment of the liquidation expenses, wages owed to the employees, social insurance expenses and statutory compensation, tax overdue and debts of the company. Any residual assets shall be distributed to the shareholders of the company.

The Company's residual assets after repayment of its debts in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to the class and proportion of their shareholdings.

During the liquidation period, the Company shall not commence any new operational activities.

**Article 305** If after putting the Company's assets in order and preparing a balance sheet and an inventory of assets in connection with the liquidation of the Company resulting from dissolution, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency.

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall turn over liquidation matters to the People's Court.

**Article 306** Following the completion of liquidation, the liquidation committee shall present a report on liquidation and prepare a statement of the receipts and payments during the period of liquidation and financial books and records which shall be audited by Chinese registered accountants and submitted to the shareholders' general meeting or the People's Court for confirmation.

The liquidation committee shall within thirty days after such confirmation, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of the Company's registration and publish a public notice of the termination of the Company.

**Article 307** Members of the liquidation committee shall perform their duty honestly and discharge the obligation of liquidation in accordance with laws.

Members of the liquidation committee shall not take personal advantage of their posts to take bribes, receive other illegal incomes, or misappropriate assets of the Company.

Members of the liquidation committee shall compensate the losses of the Company or the creditors made due to their intent or gross negligence.

## **CHAPTER 25 PROCEDURES FOR AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**Article 308** The Company may amend these Articles of Association in accordance with the requirement of laws, administrative regulations and these Articles of Association.

The amendment to these Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the companies approving department authorised by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

## **CHAPTER 26 SETTLEMENT OF DISPUTES**

**Article 309** The Company shall act according to following principles to settle disputes:

- (1) Whenever any disputes or claims arising between holders of Overseas Listed Foreign Shares and the Company, between holders of Overseas Listed Foreign Shares and the Company's directors, supervisors, president or other senior administrative officers, or between holders of Overseas Listed Foreign Shares and holders of Domestic Shares based on these Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant PRC laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration. Where a dispute or claim of rights just mentioned is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all parties who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim shall abide by the arbitration, provided that such parties shall be the Company or the Company's shareholder, director, supervisor, president or other senior administrative officer.

Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration.

- (2) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Arbitration Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

- (3) If any disputes or claims of rights are settled by way of arbitration in accordance with clause (1) of Article 304, the laws of the People's Republic of China shall apply, save as otherwise provided by laws and administrative regulations.
- (4) The award of an arbitration body shall be final and conclusive and binding on all parties.

## **CHAPTER 27 NOTICES**

**Article 310** A notice of the Company shall be sent by:

- (1) hand;
- (2) mail;
- (3) announcement;



(4) other methods provided by these Articles of Association.

- Article 311** Where a notice is served by way of announcement, after the publication of such announcement, all related persons shall be deemed to have received the relevant notice.
- Article 312** Where a notice is served by hand, the addressee shall be required to sign his name (or affix his chop) on the receipt, and the date on which the addressee signs the receipt shall be the date of service. Where a notice is sent by post, the notice shall be deemed to be served by putting the notice into a properly addressed, prepaid postage envelope and depositing the same in a mail box. Such notice shall be deemed to have been served upon expiration of 48 hours after the envelope containing the notice has been posted. Where a notice is served by way of announcement, the date on which the announcement firstly published shall be deemed as the date of service.
- Article 313** Any notices, documents, information or written statements issued by shareholders or directors to the Company shall be personally delivered or sent by registered mail to the legal address of the Company.
- Article 314** In order to prove that such notices, documents, information or written statements have been already sent, shareholders or directors shall provide evidence to prove that such notice, document, information or written statement have been sent within the prescribed time in the normal way of sending with postage prepaid to the correct address of the Company.
- Article 315** If a notice of meeting is accidentally omitted to be sent to a person who is entitled to receive the notice or if such person has not received the notice of meeting, the meeting and any resolutions made therein shall not become void thereby.
- Article 316** The Company appointed China Securities Journal, Shanghai Securities Journal as the media to publish the announcements and other information of the Company.
- Article 317** Any requirement in these Articles of Association for the Company to send, mail, dispatch, issue, publish or otherwise make available any Corporate Communication may, to the extent permitted under all applicable laws and regulations and the listing rules of the stock exchange in the place where the Company's shares are listed and these Articles of Association, be satisfied by the Company by making available the Corporate Communication on the website of the Company ([www.csair.com](http://www.csair.com)) or by sending or providing the same through electronic means.

## CHAPTER 28 INTERPRETATION AND DEFINITION OF ARTICLES OF ASSOCIATION

**Article 318** The Board of Directors shall be responsible for the interpretation of these Articles of Association. Where there are matters not contained in these Articles of Association, such matters shall be passed by way of special resolution at the shareholders' general meeting as proposed by the Board of Directors.

**Article 319** The Company shall formulate the "Rules of Procedures for Shareholders' General Meetings", "Rules of Procedures for Board Meetings" and "Rules of Procedures for Supervisory Committee Meetings" in accordance with the requirements of these Articles of Association. The rules of procedures shall be as attachments of these Articles of Association and shall take effect and be amended upon approval of the shareholders' general meeting of the Company.

**Article 320** In these Articles of Association, the following terms have the following meanings:

"Articles of Association"	refers to the existing Articles of Association of the Company;
"Board of Directors"	refers to the Board of Directors of the Company;
"PRC"	refers to the People's Republic of China;
"RMB"	refers to the legal tender of China;
"Seal"	refers to the ordinary seal used from time to time by the Company and the official seal maintained by the Company (if any), or one of the two depending upon the circumstances;
"Actual Controllers"	refers to those who, though not shareholders of the Company, can actually control the activities of the Company through investment relationship, agreement or other arrangement;
"Connected Relationship"	refers to the relationships between controlling shareholders, Actual Controllers, directors, supervisors, senior administrative officers of the Company and their directly or indirectly controlled enterprises, and other relationships that may lead to the transfer of interests of the Company. However, there is no connected relationship among State controlled enterprises.
"Corporate Communication"	refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) the directors' report, its annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form, within the meaning ascribed thereto under the listing rules of the stock exchange where the Company's shares are listed

**Article 321** In these Articles of Association, a sum and above include such sum while more than a sum or less than a sum does not include such a sum.

**Article 322** In these Articles of Association, the meaning of an accountant firm is the same as that of “auditors”.

## Description of Securities

The American Depositary Shares (“ADSs”), each representing 50 H Shares of par value RMB1.00 per share (the “H Shares”) of China Southern Airlines Company Limited (“we,” “our,” “our company,” or “us”) are listed and traded on the New York Stock Exchange and, in connection with this listing (but not for trading), the H Shares are registered under Section 12(b) of the Exchange Act. This summary contains a description of the rights of (i) the holders of H Shares and (ii) ADS holders. H shares underlying the ADSs are held by Bank of New York Mellon, as depositary, and holders of ADSs will not be treated as holders of H shares.

### Description of H Shares

The following is a summary of material provisions of our currently effective restated and amended articles of association (the “Articles of Association”), as well as the applicable PRC laws and regulations, insofar as they relate to the material terms of our H shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Articles of Association, which has been filed with the Securities And Exchange Commission (the “SEC”) as an exhibit to our annual report on Form 20-F for the financial year ended December 31, 2020 (the “Form 20-F”).

#### *Type and Class of Securities (Item 9.A.5 of Form 20-F)*

Each H share has RMB1.00 par value. The number of H shares that has been issued as of the last day of the financial year ended December 31, 2020 is provided on the cover of the Form 20-F. Our H Shares may be held in either certificated or uncertificated form.

#### *Preemptive Rights (Item 9.A.3 of Form 20-F)*

Our shareholders do not have preemptive rights.

#### *Limitations or Qualifications (Item 9.A.6 of Form 20-F)*

Not applicable.

#### *Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)*

Not applicable.

#### *Rights of H Shares (Item 10.B.3 of Form 20-F)*

See “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Dividend Information” and “Item 10. Additional Information — B. Memorandum and Articles of Association — Ordinary Shares” of the Form 20-F.

#### *Action Necessary to Change the Rights of Holders of H Shares (Item 10.B.4 of Form 20-F)*

See “Item 10. Additional Information — B. Memorandum and Articles of Association — Action Necessary to Change Rights of Shareholders” of the Form 20-F.

#### *Limitations on the Rights to Own H Shares (Item 10.B.6 of Form 20-F)*

See “Item 10. Additional Information — B. Memorandum and Articles of Association — Limitation on the Rights to Own Securities” and “Item 10. Additional Information — D. Exchange Controls” of the Form 20-F.

***Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)***

See “Item 10. Additional Information — B. Memorandum and Articles of Association — Merger, Acquisition or Corporate Restructuring” of the Form 20-F.

***Ownership Threshold (Item 10.B.8 of Form 20-F)***

The Articles of Association do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed. Shareholders will, however, be required to disclose shareholder ownership in accordance with the applicable securities laws, regulations and listing rules where the securities of the Company are listed.

***Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)***

See “Item 10. Additional Information — B. Memorandum and Articles of Association — Certain Differences Between PRC Company Law and Delaware Corporate Law” and “Item 16G. Corporate Governance” of the Form 20-F.

***Changes in Capital (Item 10.B.10 of Form 20-F)***

See “Item 10. Additional Information — B. Memorandum and Articles of Association” of the Form 20-F.

***Debt Securities (Item 12.A of Form 20-F)***

Not applicable.

***Warrants and Rights (Item 12.B of Form 20-F)***

Not applicable.

***Other Securities (Item 12.C of Form 20-F)***

Not applicable.

***Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)***

The Bank of New York Mellon, as depository, issues and delivers American Depositary Shares, also referred to as ADSs. Each ADS represents 50 H shares (or a right to receive 50 H shares) deposited with The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depository in Hong Kong. Each ADS also represents any other securities, cash or other property which maybe held by the depository. The deposited shares together with any other securities, cash or other property held by the depository are referred to as the deposited securities.

The depository’s office at which the ADSs will be administered and its principal executive office are located at 240 Greenwich Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other securities intermediary that is a direct or indirect participant in The Depository Trust Company, also called DTC. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other securities intermediary to assert the rights of ADS holders described in this section. You should consult with your securities intermediary to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depository confirming their holdings.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. PRC law governs shareholder rights. The depositary will be the holder of the shares underlying the ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of what we believe to be the material terms of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. The deposit agreement has been filed with the SEC under the cover of a registration statement on Form F-6.

### ***Dividends and Other Distributions***

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, upon payment or deduction of its fees and expenses and any applicable taxes or other governmental charges. You will receive these distributions in proportion to the number of shares your ADSs represent.

*Cash.* The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if the relevant government approval or license is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

*Shares.* The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. It will sell shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed shares (or ADSs representing those shares) sufficient to pay its fees and expenses in connection with that distribution.

*Rights to Receive Additional Shares.* If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary will consult with us and decide in its own discretion whether to make such rights available or to dispose such rights and distribute the net proceeds to ADS holders, or allow the rights to lapse. In the latter case, you will receive no value for them. In circumstances in which rights would otherwise not be distributed, if an ADS holder requests the distribution of warrants or other instruments in order to exercise the rights allocable to its ADSs, the depositary will make such rights available upon written notice from us to the depositary that (a) we have elected in our sole discretion to permit such rights to be exercised and (b) such ADS holder has executed such documents as reasonably required under applicable law. If the depositary has distributed warrants or other instruments for rights to all or certain ADS holders, upon payment by such holders to the depositary of the purchase price of the shares to be received upon the exercise of the rights, the depositary will, on behalf of such holders, exercise the rights and purchase the shares, and shall cause such shares to be deposited and deliver ADSs representing such shares to the ADS holder. U.S. securities laws may restrict the ability of the depositary to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer. If the depositary determines that it is not lawful and feasible to make such rights available to all or certain ADS holders, it may sell the rights, warrants or other instruments in proportion to the number of ADSs held by the ADS Holders to whom it has determined it may not make such rights available, and allocate the proceeds to such ADS holders, net of the depositary's fees and expenses and taxes and other governmental charges.

*Other Distributions.* The depositary will distribute to ADS holders any other distributions on deposited securities in a manner that they deem equitable and practicable after deducting the applicable fees, expenses, taxes or other governmental charges. If, for any reason, the depositary deems such distribution not feasible, it may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depositary to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depositary is not responsible if it has not received satisfactory assurances from us that the distribution does not require registration under the U.S. Securities Act of 1933. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

### ***Deposit, Withdrawal and Cancellation***

The depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or other governmental charges, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

You may surrender the ADSs for the purpose of withdrawal at the depositary's office. Upon payment of its fees and expenses and of any taxes or other governmental charges and receipt of any required certification, the depositary will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian, or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible. No share shall be accepted for deposit unless accompanied by evidence that any necessary approval has been granted by applicable governmental body performing the function of the regulation of currency exchange.

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

### ***Voting Rights***

ADS holders may instruct the depositary how to vote the number of deposited shares their ADSs represent. If we request the depositary to solicit your voting instructions (and we are not required to do so), the depositary will notify you of a shareholders' meeting and send voting materials to you, including an express indication that if no voting instruction is received from ADS holder, such ADS holder shall be deemed to have instructed the depositary to give discretionary proxy to a person designated by us, except if we inform the depositary that we do not wish such proxy to be given, substantial opposition exists or the relevant matter materially and adversely affects the rights of holders of shares. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. The depositary will try, as far as practical, subject to any applicable provision of PRC law and of our articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the shares represented by your ADSs. In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to Deposited Securities, if we request the depositary to act, we agree to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 45 days in advance of the meeting date.

### ***Changes Affecting Deposited Securities***

If there is any change in the deposited securities, such as a change in par value, split-up, consolidation or other reclassification, or any merger, consolidation, recapitalization or reorganization or sale of assets affecting us or upon the redemption or cancellation of deposited securities with the depositary receiving the new securities in exchange for or in lieu of the old deposited securities, the depositary will hold those new securities as deposited securities under the deposit agreement unless additional ADSs are delivered.

### ***Amendment and Termination***

We may agree with the depository to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depository for registration fees, cable, telex or facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depository notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold the ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

The depository will initiate termination of the deposit agreement if we instruct it to do so. The depository may initiate termination of the deposit agreement if 60 days have passed since the depository told us it wants to resign but a successor depository has not been appointed and accepted its appointment.

If the deposit agreement will terminate, the depository will notify ADS holders at least 30 days before the termination date. At any time after the expiration of four months from termination date, the depository may sell the deposited securities. After that, the depository will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the ADS holders that have not surrendered their ADSs.

After the termination date and before the depository sells, ADS holders can still surrender their ADSs and receive delivery of deposited securities, except that the depository may refuse to accept a surrender for the purpose of withdrawing deposited securities or reverse previously accepted surrenders of that kind if it would interfere with the selling process. The depository may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The depository will continue to collect distributions on deposited securities, but, after the termination date, the depository is not required to register any transfer of ADSs or distribute any dividends or other distributions on deposited securities to the ADSs holder (until they surrender their ADSs) or give any notices or perform any other duties under the deposit agreement except as described in this paragraph.

### ***Limitations on Obligations and Liability to ADR Holders***

*Limits on our obligations and the obligations of the depository; limits on liability to holders of ADSs*

The deposit agreement expressly limits our obligations and the obligations of the depository. It also limits our liability and the liability of the depository. We and the depository:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if we or it exercises, or fails to exercise, discretion permitted under the deposit agreement;
- are not liable for any action or inaction by either of us in reliance upon the advice of or information from legal counsel, accountants, any person representing shares for deposit, any ADS holder or any other person believed by it in good faith to be competent to give such advice or information;
- are not liable for any non-performance or delay in the performance of any act to be performed by the terms of the deposit agreement, by reason of any provision of law or regulations or our articles of association or similar document, or by reason of any provision of any securities we issued or distributed, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond our control;
- are not liable for the inability of any holder of ADSs to benefit from any distribution, offering, right or other benefit on deposited securities that is made available to holders of deposited securities, but is not, under the terms of the deposit agreement, made available to ADS holders, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- the depository has no liability for any failure to carry out voting instructions to vote any deposited securities, or for the manner in which such vote is cast or the effect of any such vote;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person; and



- the depository is not liable for the acts or omissions of any securities depository, clearing agency or settlement system.

In the deposit agreement, we and the depository agree to indemnify each other under certain circumstances.

In addition, the deposit agreement provides that each party to the deposit agreement (including each holder, beneficial owner and holder of interests in the ADSs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any lawsuit or proceeding against the depository or our company related to our shares, the ADSs or the deposit agreement. If we or the depository were to oppose a jury trial demand based on the waiver, the court would determine whether the waiver is enforceable based on the facts and circumstances of that case in accordance with applicable law.

### ***Requirements for Depository Actions***

Before the depository will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of shares, the depository may require:

- payment of taxes or other governmental charges and fees charged by third parties for the deposit of shares or transfer of deposited securities;
- satisfactory proof of identity and genuineness of any signature or other information it deems necessary;
- providing certain certifications and making such representations and warranties as the depository may deem necessary or proper or as we may reasonably require by written request to the depository; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depository may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depository or our transfer books are closed or at any time if the depository or we think it advisable to do so.

### ***Your Right to Receive the Shares Underlying the ADSs***

ADS holders have the right to cancel their ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (i) the depository has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of deposited securities.

### ***Direct Registration System***

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the ADSs. DRS is a system administered by DTC pursuant to which the depository may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto. Profile is feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated ADSs, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register that transfer.

In connection with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depository will not verify, determine or otherwise ascertain that the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties have agreed that the depository's reliance on and compliance with instructions received by the depository through the DRS/Profile system and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depository.

***Shareholder Communications; Inspection of Register of Holders of ADSs***

The depositary will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depositary will send you copies of those communications if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the deposit agreement or the ADSs.

**Property Management Framework Agreement**

This Agreement is signed in Guangzhou by the following parties on the day of \_\_\_\_\_:

Party A: China Southern Airlines Company Limited

Address: No.68 Qixin Road, Baiyun District, Guangzhou City, Guangdong Province, China

Party B: China Southern Airlines Group Property Management Co., Ltd.

Residence: 1st and 5th floor of the old CSAH office building, Airport Road, Baiyun District, Guangzhou

Party A includes China Southern Airlines Company Limited and its wholly-owned and controlled subsidiaries.

In order to achieve optimal allocation of resources, make full use of Party B's management advantages and improve the economic benefits of the enterprise, Party A and Party B, after friendly consultation, reached the following framework agreement on matters related to property management and repair entrusted to Party B by Party A.

Article I Commitments

1. Party A is a legally surviving Chinese enterprise and has obtained a business license from the administrative department of business administration in accordance with the relevant provisions of the laws and regulations of China, and has fulfilled its obligations of annual inspection in accordance with the provisions.

2. Party B is a legally surviving Chinese enterprise which has obtained a business license from the administrative department of business administration in accordance with the relevant provisions of the laws and regulations of China and has fulfilled the obligations of annual inspection in accordance with the provisions, and has the management capacity and management and service personnel of the corresponding industry.

## Article II Property Management

In order to ensure that the production, office and living area facilities of Party A in Guangzhou are perfect and intact, and the equipment is in normal operation, Party A entrusts Party B to manage and maintain the properties of China Southern Airlines Company Limited in Guangzhou. At the same time, Party B is encouraged to undertake the property management work of Party A's branch companies and subsidiaries in a step-by-step and conditional manner. Party B undertakes to give Party A prices (or charging standards) that are not higher than those of independent third parties in the same industry.

## Article III Rights and obligations of the Parties

### (I) Rights and obligations of Party A

1. The management fees shall be paid in accordance with the provisions of the property management agreement.
2. It has the right to supervise and evaluate the management and maintenance work of Party B and to give guidance.

### (II) Rights and obligations of Party B

1. The management fees shall be charged in accordance with the provisions of the property management agreement.
2. To be subject to the supervision, management and appraisal of Party A.
3. It shall diligently manage the property delivered by Party A and equip with qualified property management personnel, so as to ensure that the work is completed on time and with quality.

#### Article IV Trading Limits

The Parties hereto have agreed that the annual caps of this Agreement is RMB167 million.

#### Article V Force Majeure

1. If the Agreement cannot be performed due to force majeure, the Parties shall not be liable for the failure to perform and the Agreement shall be terminated naturally. If part of this Agreement cannot be performed due to force majeure, the Parties shall be exempted from the corresponding responsibilities of the party who has incurred force majeure according to the degree of impact of force majeure, but the other parts of this Agreement not affected by force majeure shall continue to be performed. The occurrence of force majeure following a delay in performance shall not relieve the responsibility.

Force majeure means objective circumstances which cannot be foreseen, cannot be avoided and cannot be overcome, including but not limited to the war, pestilence, strikes, earthquakes, floods, etc.

2. If either party is unable to perform the agreement due to force majeure, it shall promptly notify the other party within forty-eight (48) hours in order to mitigate the damage that may be caused to the other party, and shall provide proof within fifteen (15) working days. If it is really impossible to fulfill the obligation of notification and provide proof on time due to reasonable reasons, the time stipulated in this Subparagraph may be extended according to the actual situation.

#### Article VI Settlement of the Disputes

All disputes arising out of the signing or performance of this Agreement shall first be resolved by amicable negotiation between the Parties. If the negotiation fails, either party may file a lawsuit with the people's court having jurisdiction.

Article VII Miscellaneous

(I) This Agreement shall be valid for a period of three years, i.e. from 1 January 2021 to 31 December 2023.

(II) For matters not covered in this Agreement, the Parties shall enter into separate supplemental agreements, which shall be of equal effect with this Agreement. The performance of this Agreement shall be in strict compliance with the relevant laws and regulations of the People's Republic of China and shall satisfy the requirements of the relevant laws and regulations and listing rules of the place where Party A is listed.

(III) The original of this Agreement is in two copies, one for each party, with the same legal binding effect.

Party A:

Authorized Representative:

Date:

Party B:

Authorized Representative:

Date:

**Asset Lease Framework Agreement**

This Agreement is made and entered into at Guangzhou on the [ ] day of December 2020 by and between:

Party A: China Southern Air Holding Company Limited

Party B: China Southern Airlines Company Limited

Based on the principles of equality, voluntariness and compensation, Party A and Party B, through friendly consultation, have reached the following framework agreement in respect of the leasing of assets from Party B to Party A in Wuhan, Changsha, Zhanjiang, Nanyang, Guangzhou, Urumqi and Beijing.

**Chapter I General provisions**

Article I In accordance with this Contract, Party A undertakes that it has the legal and complete property rights of the premises and the legal right to use the land in respect of the premises and the land leased by Party A to Party B for use. Underground resources, buried objects and municipal utilities are excluded from the lease of land use rights.

Article II The legitimate rights and interests of Party B in utilizing and operating the land within the scope of the rented premises and land use rights under this Contract shall be protected by national laws.

Article III Party A hereto includes China Southern Air Holding Company Limited and its wholly-owned and controlled subsidiaries, and Party B includes China Southern Airlines Company Limited and its wholly-owned and controlled subsidiaries.

**Chapter II Specific agreements**

Article IV Party A will lease the assets to Party B for use, and the pricing of the Parties to the transaction will follow the principle of fairness and reasonableness and be based on the fair market price.

Article V In accordance with this Framework Agreement, the Parties shall sign a specific agreement on the scope of the lease and related details.

Article VI The use of the leased premises and land hereunder shall not violate the relevant national regulations and exceed the scope agreed between the Parties, and if Party B needs to change the use of the land and premises hereunder during the lease term, Party A's permission shall be sought.

### **Chapter III Entry into force and validity of this Agreement**

Article VII This Agreement shall be valid for three years from 1 January 2021 to 31 December 2023; this Agreement shall be legally binding on the Parties from the date of its entry into force.

### **Chapter IV Special agreements**

Article VIII The pricing between the Parties to the transaction shall follow the principle of fairness and reasonableness, be based on fair market prices in accordance with national or local regulations on charges, and refer to the asset appraisal report, and Party A undertakes to give Party B a transaction price no higher than the prices or charges of independent third parties.

Article IX The Parties agree that the total annual transaction amount of this Agreement shall not exceed the maximum limit of RMB346, 290, 456.72. In respect of the maximum transaction amount, the Parties shall satisfy the requirements of the relevant Listing Rules in the course of the performance of this Agreement.

Party A and Party B confirmed that, in accordance with the relevant recognition conditions under IFRS 16 and CASBE 21 and the annual rentals measured by the appraisal, the operating lease of China Southern Airlines Company Limited as the lessee will be recognized as a right-of-use asset with an estimated amount of RMB934,921,570.17 from the commencement date of the lease term.

### **Article V Liability for breach of contract**

Article X Any breach of this Agreement by either party shall constitute a breach of this contract, and the breaching party shall assume the responsibility for breach of this contract in accordance with the relevant provisions of the *Contract Law of the People's Republic of China*, and the other party shall have the right to terminate this Agreement.

Article XI Any breach of the specific agreements signed under this Framework Agreement by the Parties shall be dealt with in accordance with the agreement of the specific agreements and shall not affect the continued performance of this Framework Agreement and other specific agreements within thereof.



## Chapter VI Supplementary provisions

Article XII The terms and contents of this Agreement shall not be changed or amended by either party without the prior written consent of the Parties. Only those supplements and modifications agreed by the Parties and formed into a written supplementary agreement shall be legally binding on the Parties.

Article XIII If there is any matter not covered in this Agreement, the Parties shall negotiate and sign a supplementary agreement in writing, and such supplementary agreement in writing shall have the same legal effect as this Agreement.

Article XIV Any dispute arising from the interpretation, validity and implementation of this Agreement shall be settled through friendly consultation between the Parties, and if such consultation fails, either Party may submit the dispute to the People's Court of Guangzhou with jurisdiction for settlement through litigation.

Article XV The text of this Agreement is in six copies, three copies for each party, and each copy shall have the same legal effect.

Party A: China Southern Air Holding Company Limited

Authorized Representative:

Date: [ ] [ ] [20 ]

Party B: China Southern Airlines Company Limited

Authorized Representative:

Date: [ ] [ ] [20 ]

**Capital Increase and Equity Transfer Agreement**

No.:

The Agreement is signed among the following parties on [ ] [ ] 2020:

Southern Airlines General Aviation Co., Ltd. (hereinafter referred to as “SAGA”), a company established and validly existing under the laws of PRC, its registered address is located at Room 306, Ancillary Building, People’s Government of Guishan Town, Zhuhai City, its legal representative is Li Er Bao, and its unified social credit code is 91440400323280545F.

China Southern Airlines Company Limited (hereinafter referred to as “China Southern Airlines”), a company established and validly existing under the laws of PRC, its registered address is located at Room 301, 3/F, Office Building (Phase I), Guanhao Science and Technology Park, No. 12 Yuyan Road, Huangpu District, Guangzhou, its legal representative is Wang Chang Shun, and its unified social credit code is 91440000100017600N.

China Southern Power Grid Industry Investment Group Co., Ltd. (hereinafter referred to as “CSP Investment Group”), a company established and validly existing under the laws of PRC, its registered address is located at Rooms 201 & 202, No. 846 Dongfeng East Road, Yuexiu District, Guangzhou City, Guangdong Province, its legal representative is Shang Chun, and its unified social credit code is 91440101MA5CHUQD39.

Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) (hereinafter referred to as “Shuangbai No. 1”), an enterprise established and validly existing under the laws of PRC, its registered address is located at Room 122-18, No. 26 Baiyun Road, Shangcheng District, Hangzhou City, Zhejiang Province. The appointed representative of the executive partners is Dai Yu Si, and the unified social credit code is 91330102MA2GY5W751.

China Southern Airlines Group Capital Holding Limited (hereinafter referred to as “Southern Airlines Capital”), a company established and validly existing under the laws of PRC, its registered address is located at Room 606, Southern Airlines Pearl Hotel, Airport 5<sup>th</sup> Road, New Airport South Work Area, Baiyun District, Guangzhou, its legal representative is Xie Bing, and its unified social credit code is 91440101MA59NW4888.

Zhuhai General Aviation Investment Partnership (Limited Partnership) (hereinafter referred to as “ZGA”), a limited partnership established and validly existing under the laws of PRC/foreign countries, its registered address is located at Room 105-72001 (Centralized Office Area), No. 6 Baohua Road, Hengqin New District, Zhuhai City. The representative appointed by the executive partners is Li Er Bao, and the unified social credit code is 91440400MA55GUKM7Q.

(CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA are hereinafter collectively referred to as the “Investors”)

WHEREAS:

1. As of the date of this Agreement, the registered capital of SAGA is RMB1,000,000,000 (hereinafter referred to as the “Original Registered Capital”), and China Southern Airlines holds 100% of its equity.

2. According to the Assets Appraisal Report on the Value of All Shareholders’ Equity of Southern Airlines General Aviation Limited Involved in the Strategic Investors to be Introduced by Southern Airlines General Aviation Limited (ZSZYPBZ [2020] No.010004) (hereinafter referred to as the “Asset Appraisal Report”) issued by Zhongshui Zhiyuan Assets Appraisal Co., Ltd., as of 30 November 2019 (hereinafter referred to as the “Appraisal Base Date”), the appraised value of the total assets of SAGA were RMB2,438,321,600, and the appraised value of the net assets were RMB1,489,118,400.

3. On 4 August 2018, SAGA was included in the list of “Double Hundred Action” enterprises in the “Double Hundred Action” Work Plan for SOE Reform issued by ASAC. According to the shareholder decision made by the shareholders of SAGA and the Implementation Plan of Mixed-ownership Reform of Southern Airlines General Aviation Co., Ltd. approved by China Southern Air Holding Company Limited, SAGA and China Southern Airlines publicly listed on China Beijing Equity Exchange to solicit prospective investors and implement the mixed-ownership reform of SAGA (hereinafter referred to as the “Mixed Reform”).

4. CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA intend to participate in the Mixed Reform. CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA respectively subscribed for RMB68.88 million, RMB97.14 million, RMB68.88 million and RMB107.38 million of the newly increased registered capital of RMB342.28 million of SAGA (hereinafter referred to as the “Capital Increase”), and CSP Investment Group, Shuangbai No. 1 and Southern Airlines Capital respectively received the corresponding equity of RMB65.42 million, RMB92.28 million and RMB65.42 million of China Southern Airlines in SAGA’s Original Registered Capital (hereinafter referred to as the “Equity Transfer”, together with the “Capital Increase”, referred to as the “Investment”).

NOW THEREFORE, the Parties have reached the following agreement to be mutually observed through friendly negotiation and based on the principle of cooperation and mutual benefit:

#### **Article 1 Investment Arrangements**

1. The registered capital of SAGA increased from RMB1,000 million to RMB1,342.28 million, and CSP Investment Group subscribed for the registered capital of SAGA with RMB102,576,096 to increase its capital by RMB68.88 million, of which RMB68.88 million was included in the registered capital and RMB33,696,096 was included in the capital reserve. Meanwhile, CSP Investment Group accepted RMB65.42 million of China Southern Airlines in SAGA’s Original Registered Capital (accounting for 6.542% of SAGA’ equity before the Capital Increase) at a price of RMB97,423,464. CSP Investment Group paid the above Capital Increase and the Equity Transfer price in cash.

Shuangbai No. 1 subscribed for the registered capital of SAGA with RMB144,660,888 to increase its capital by RMB97.14 million, of which RMB97.14 million was included in the registered capital and RMB47,520,888 was included in the capital reserve. And Shuangbai No. 1 accepted RMB92.28 million of China Southern Airlines in SAGA' Original Registered Capital (accounting for 9.228% of SAGA' equity before the Capital Increase) at a price of RMB137,423,376. Shuangbai No. 1 paid the above Capital Increase and Equity Transfer price in cash.

Southern Airlines Capital subscribed for the registered capital of SAGA with RMB102,576,096 to increase its capital by RMB68.88 million, of which RMB68.88 million was included in the registered capital and RMB33,696,096 was included in the capital reserve. And Southern Airlines Capital accepted RMB65.42 million of China Southern Airlines in SAGA' Original Registered Capital (accounting for 6.542% of SAGA' equity before the Capital Increase) at a price of RMB97,423,464. Southern Airlines Capital paid the above Capital Increase and Equity Transfer price in cash.

ZGA subscribed for the registered capital of SAGA with RMB159,910,296 to increase its capital by RMB107.38 million, of which RMB107.38 million was included in the registered capital and RMB52,530,296 was included in the capital reserve. ZGA paid the above Capital Increase in cash.

2. After completing the Investment, according to the contract, China Southern Airlines, CSP Investment Group, Shuangbai No. 1, Southern Airlines Capital and ZGA hold 57.9%, 10.0%, 14.1%, 10.0% and 8.0% equity of SAGA, respectively.

3. The price of the Investment is based on the appraisal value of the owner's equity of SAGA in the Asset Appraisal Report, and is finally determined according to the listing-for-sale results of SAGA and China Southern Airlines on China Beijing Equity Exchange.

**Article 2 Payment of Capital Increase and Equity Transfer Price and Handling of Relevant Procedures**

1. The deposits paid by CSP Investment Group, Shuangbai No.1 and Southern Airlines Capital to China Beijing Equity Exchange for the Capital Increase and the Equity Transfer shall be converted into part of the Capital Increase and Equity Transfer accordingly from the effective date of the Agreement, and shall transfer to the following designated bank accounts (hereinafter referred to as the "Designated Accounts") of SAGA and China Southern Airlines respectively after the issuance of relevant Capital Increase Certificates (containing equity transfer matters) by China Beijing Equity Exchange:

SAGA

Account Name: Southern Airlines General Aviation Co., Ltd.

Account No.: 44001646237053003110

Opening Bank: China Construction Bank, Zhuhai Jiuzhou Sub-branch

China Southern Airlines

Account Name: China Southern Airlines Company Limited

Account No.: 3602005029200124934

Opening Bank: Industrial and Commercial Bank of China, Guangzhou Liuhua Sub-branch

2. CSP Investment Group, Shuangbai No. 1 and Southern Airlines Capital shall, within thirty (30) working days after the Agreement comes into effect, pay the remaining Capital Increase and Equity Transfer price after deducting the deposit to the Designated Accounts of SAGA and China Southern Airlines as agreed in Item 1 of this Article, respectively.

ZGA shall fulfill the obligation to pay the paid-in capital contribution of RMB159,910,296 for the total Capital Increase within three (3) months after the Agreement comes into effect. ZGA shall pay the capital increase price to the Designated Account of SAGA as agreed in Item 1 of this Article.

3. After SAGA and China Southern Airlines receive all the Capital Increase and Equity Transfer prices respectively paid by CSP Investment Group, Shuangbai No. 1 and Southern Airlines Capital for the Investment, the Parties shall cooperate with SAGA to complete the industrial and commercial change registration of the Investment and complete the signing of the required documents within ten (10) working days after receiving SAGA's written notice. SAGA shall complete the industrial and commercial change registration of the Investment within thirty (30) days after SAGA and China Southern Airlines receive the full Capital Increase and Equity Transfer price paid by CSP Investment Group, Shuangbai No. 1 and Southern Airlines Capital respectively, and the Parties have already provided all the documents necessary for industrial and commercial change registration.

4. Taxes and fees involved in the Investment shall be borne by the Parties according to the requirements of relevant laws and regulations. Other expenses other than taxes and fees involved in the Capital Increase and the Equity Transfer shall be borne by the relevant parties that incur such expenses.

### **Article 3 Profit and Loss Arrangement during Transition Period**

1. The Parties agree that from the date of completion of the industrial and commercial change registration of the Investment, the Investors shall enjoy shareholders' rights and interests and assume shareholders' obligations in accordance with the Articles of Association of SAGA.

2. During the period from the Appraisal Base Date (i.e. 30 November 2019) to the date of completion of the industrial and commercial change registration of the Investment (hereinafter referred to as the "Transition Period"), the profit and loss of SAGA shall be shared and borne by all shareholders according to their shareholding percentage after the completion of the Investment.

#### **Article 4 Corporate Governance**

1. After the Investment, the Parties firmly supported the leadership of the Communist Party of China. In strict accordance with the provisions of the Constitution of the Communist Party of China, SAGA has established the Party's working organization to ensure the necessary conditions for the normal activities of the Party organization. The Party Committee plays a leading role and performs its duties according to the Constitution of the Communist Party of China and the Regulations on the Work of Grassroots Organizations of State-owned Enterprises of the Communist Party of China (Trial).

2. After the Investment, the Board of Directors of SAGA consists of 7 board members, including 4 appointed by China Southern Airlines, 1 appointed by Shuangbai No. 1, 1 appointed by CSP Investment Group and 1 appointed by Southern Airlines Capital. The Chairman is nominated by China Southern Airlines and elected by the Board of Directors. The legal representative shall be the Chairman of the Board of Directors.

The term of office of a director is three (3) years. After the term of office expires, the director may be re-elected after being re-appointed by each shareholder. During the term of office of a director, the shareholder appointing the director may change such appointment in advance.

3. After the Investment, the Board of Supervisors of SAGA consists of 3 supervisors, including 2 appointed by China Southern Airlines and 1 employee representative supervisor, who are democratically elected by the employee representative meeting. The term of office of a supervisor is three (3) years. After the expiration of the term of office, supervisors may be re-elected upon further appointment by shareholders and democratic election by employees.



4. The General Manager of SAGA shall be nominated by China Southern Airlines and appointed or dismissed by the Board of Directors. Other shareholders have the right to recommend and other officers shall be selected by the Board of Directors.

5. The Parties agree that the above-mentioned changes of Board of Directors, Board of Supervisors and senior officers shall be submitted to the competent industrial and commercial department for industrial and commercial change registration together with the Capital Increase and the Equity Transfer.

6. On the premise that the cash flow meets the production and operation needs of SAGA, the Parties agree to distribute profits at not less than 30% of the distributable profits of SAGA every year, and the profit distribution shall be implemented after the resolution and decision of the shareholders meeting.

7. Other matters concerning the governance of SAGA shall be subject to the provisions of the Articles of Association attached hereto. If any provisions of the Articles of Association are inconsistent with the Agreement, the provisions of the Articles of Association shall be revised accordingly after the resolution of the shareholders meeting.

#### **Article 5 Particular Rights and Obligations**

1. Investors promise that within 36 months (hereinafter referred to as the "Lock-in Period") from the date of completion of the industrial and commercial change registration of the Investment (subject to the date when the competent industrial and commercial department issues the Notice of Approval of Change Registration), they will not transfer their shareholding in SAGA directly or indirectly to any third party other than the shareholders of SAGA without the consent of the shareholders of SAGA representing more than one-half of the voting rights of the shareholders (including Southern Airlines), unless otherwise agreed by the Parties.

China Southern Airlines promises not to transfer its direct or indirect equity in SAGA to any third party during the Lock-up Period unless it is approved in writing by at least one other shareholder unrelated to China Southern Airlines.

During the period when the Investors hold equity in SAGA, none of the shareholders shall provide external guarantees, repay debts, entrust them to any third party for custody or create any other third party rights without the unanimous consent of all the shareholders.

2. After the expiration of the Lock-up Period, the shareholders of SAGA shall have the right to transfer their shares in accordance with the Company Law and the Articles of Association then in force and the remaining shareholders shall have the preemptive right according with the law.

3. During the period when the Investors and China Southern Airlines hold equity in SAGA, if SAGA carries out share restructuring or applies for public offering and listing (except on the National Equities Exchange and Quotations (NEEQ)), the Investors and China Southern Airlines unconditionally agree to lock in their equity in SAGA in accordance with the requirements of the Company Law, China Securities Regulatory Commission (CSRC) and relevant laws, regulations and rules at home and abroad.

4. After the completion of the Investment, SAGA will gradually standardize and improve in accordance with the provisions of relevant laws, regulations and normative documents on the listing of enterprises. The Parties will actively cooperate. On the premise that SAGA meets the conditions for public offering of shares and listing application, the Parties should fully support SAGA to list as soon as possible.

5. The Investors shall not sign concerted action agreements with shareholders other than China Southern Airlines during the period of holding equity in SAGA, and shall not seek the status of actual controller of SAGA in any form. Once the Investors and/or their related parties purchase (regardless before or after the listing of SAGA) any number of shares of SAGA through any means, when the equity of SAGA held or controlled by the Investors (the equity of SAGA held by the Investors and their related parties shall be combined for the purpose of calculation) reaches 30% or the difference between the equity of SAGA held by China Southern Airlines is equal to or less than 5%, such Party and/or any of its related parties shall obtain the written consent of China Southern Airlines before making such purchases.

## **Article 6 Representations and Warranties**

1. Each Party hereto represents and warrants to the other Party that:

(1) All the representations and warranties made by the Parties are true, complete and accurate;

(2) Each party is an enterprise qualified as a legal person under Chinese or foreign law and established and validly existing under Chinese or foreign law, and has full rights to dispose of its assets independently;

(3) Each Party has all the rights, authorizations and approvals necessary to enter into this Agreement and to fully perform its obligations hereunder;

(4) Neither the execution hereof nor the performance of its obligations hereunder will conflict with, violate or be bound by any of its articles of association, signed agreements and obtained licenses, or result in its violation or need to obtain the judgment, ruling, order or consent from any court, government department or regulatory authority. This Agreement shall be legally binding upon its effectiveness.

2. The Investors make the following further guarantees and commitments to China Southern Airlines and SAGA:

(1) The Investors have a good business credibility without any records of illicit operations and no litigation, arbitration or administrative penalty or other circumstances that affects its shareholding operation or causes significant social impact;

(2) The Investors' legal representatives, directors, supervisors and senior management/executive partners and their appointed representatives have no criminal records;

(3) The Investors have a good financial position and payment capacity, and the investment price of the capital increase and equity transfer is self-owned funds, and there are no financial products, asset management plans, trust plans or other fund collection plan from any asset management companies, trust institutions or other credit platforms, etc.;

(4) The Investors comply with the conditions for investor qualification and conditions for capital increase and equity transfer as announced on the Beijing Equity Exchange.

3. China Southern Airlines and SAGA make the following further guarantees and commitments to Investors:

(1) China Southern Airlines commits to waive the pre-emptive right for the capital increase;

(2) China Southern Airlines and SAGA have a good business credibility without any records of illicit operations and no litigation, arbitration or administrative penalty or other circumstances that affects its operation on an ongoing basis or causes significant social impact;

(3) The legal representatives, directors, supervisors and senior management personnel of China Southern Airlines and SAGA have no criminal records;

(4) From the date of signing this Agreement to the date when the industrial and commercial modification registration of the investment is completed, China Southern Airlines shall ensure that SAGA will maintain its operation in the normal business practice and will not commit any act that causes or may cause any significant adverse change in the business, operation or finance of SAGA.

## **Article 7 Liability for Breach of Contract**

1. Except as otherwise agreed herein, if either party suffers any loss incurred by the non-breaching party due to any breach hereof, it shall compensate the non-breaching party for the loss, and bear any expenses thus paid by the non-breaching party, including but not limited to attorney fee, litigation fee, forensic fee, notarial fee, travel fee, fee charged by a third-party institution and any other expenses.

2. After the effective date hereof and on the premise that China Southern Airlines and SAGA fully perform the Agreement, if the Investors fail to pay the capital increase (or equity transfer price) as scheduled according to the Agreement, the Investor shall pay SAGA (or China Southern Airlines, if it is equity transfer price) liquidated damages at the rate of 5/10,000 of the capital increase subscription price (or equity transfer price) payable on each overdue day, and SAGA and China Southern Airlines have the right to require deduction of the liquidated damages payable by the breaching party from the deposit that has been collected. If the losses incurred by SAGA and China Southern Airlines exceed the liquidated damages, they shall be entitled to request the defaulting party to bear the excess losses.

3. If any party delays in signing or providing the approval and registration formalities of the industrial and commercial department and other departments related to the investment due to violation of Article 2, the breaching party shall pay the non-breaching party liquidated damages at the standard of 5/10,000 of the total investment price paid by the breaching party for the capital increase and equity transfer (in the case of SAGA and China Southern Airlines, it will subject to the amount collected) for each overdue day. If the resulting losses exceed the liquidated damages, the non-breaching party shall be entitled to require the breaching party to bear the excess losses.

4. In case any party breaches the obligations stipulated in Article 5, the breaching party shall pay the non-breaching party liquidated damages equivalent to 30% of the total amount of the investment price paid by the breaching party for the capital increase and equity transfer. If the losses thus incurred by the breaching party exceed the liquidated damages, the non-breaching shall be entitled to require the breaching party to bear the excess losses. In addition:

(1) If the Investors violate the obligations stipulated in Item 5 of Article 5, the Investors shall return all the proceeds from holding the stock rights of SAGA to SAGA, and shall be liable for compensation if any loss is caused to SAGA or any other shareholder.

(2) In the event that an Investor violates the equity purchase as prescribed in Item 5 of Article 5, the Investor shall unconditionally terminate the concerted action agreements and/or restore the equity to the pre-purchase proportion within 90 days from the date of receiving the written notice of SAGA. If it is overdue, the Investor shall, on each overdue day, pay SAGA liquidated damages at the rate of 5/10,000 of the total investment price paid for the capital increase and equity transfer.

#### **Article 8 Confidentiality Obligations**

1. Unless otherwise agreed herein, each party shall try its best to keep confidential all the business information, data and/or documents of the other Party obtained due to performance hereof in various forms, including the Agreement and any supplementary agreement, revised documents, relevant commitment letter of the Agreement and other possible cooperation matters of the Parties. Each Party shall limit access to such information to its employees, agents, suppliers, etc. as may be necessary to perform its obligations hereunder.

2. The above restrictions shall not apply to:

(1) Materials and information that have become generally available to the public at the time of disclosure;

(2) The Confidential Information has become available to the public not due to reasons attributable to the Receiving Party;

(3) The receiving Party can demonstrate that it has acquired the information prior to its disclosure and is not directly or indirectly obtained from others;

(4) Either party is obliged to disclose the above confidential information to relevant government departments as required by law, or to its employees, representatives, agents, consultants or lawyers as required by its normal operation (provided, however, that the said employees, representatives, agents, consultants or lawyers are obligated to keep the confidential information);

(5) The disclosure made by any one party to its bank and/or other financing institution in the context of its normal business.

3. The provisions of the Chapter shall remain in force regardless of the termination hereof.

4. In case of any other confidentiality agreement or letter of commitment signed between the Investor and SAGA, if the Agreement conflicts with the confidentiality agreement or letter of commitment made by the Parties, the confidentiality agreement or letter of commitment shall prevail.

#### **Article 9 Force Majeure**

1. "Force Majeure" shall mean any event which is beyond the control of the Parties or one Party hereto, and which is unforeseeable, or unavoidable though foreseeable and which occurs after the execution hereof and renders any Party unable to perform all or part hereof. Force majeure includes but is not limited to strikes, employee riots, explosions, fires, epidemics, floods, earthquakes, hurricanes and/or other natural disasters and wars, civil commotion, vandalism, expropriation, confiscation, acts of government sovereignty, changes in law or failure to obtain government approval for matters or inability of the Parties to continue cooperation due to relevant mandatory government regulations and requirements, and occurrence of other major incidents or emergencies.

2. In the event of a force majeure event, the party whose performance hereunder is impeded shall notify the other party without delay in the most convenient manner and provide the other party with a detailed written report of such event within fifteen (15) days of the occurrence of the force majeure event. A Party affected by a force majeure shall take all reasonable steps to eliminate the effect of the force majeure and reduce the loss caused to the Parties by the force majeure. According to the impact of force majeure event on the performance hereof, each party shall decide whether to terminate or postpone the performance hereof, or partially or completely relieve the hindered party of its obligations hereunder.

### **Article X Notice**

1. Notices and written documents hereunder shall be delivered by hand, facsimile or courier mail to the addresses and numbers shown below, unless either party has notified the other parties in writing of the changed addresses and numbers. In the case of a notice sent by courier mail, the notice shall be deemed to have been delivered 5 days after mailing, or on the following day of delivery if sent by personal delivery or facsimile. If it is sent by fax, the original copy shall be mailed by express mail or delivered by hand to other parties immediately after sending.

#### **China Southern Airlines:**

Address: China Southern Airlines Building, No.68 Qixin Road, Baiyun District, Guangzhou  
Attn: Wang Hongdan  
Tel: 020-86134751  
Fax: 020-86658984

#### **SAGA:**

Contact person: Fu Kui  
Address: No. 163, Shihua West Road, Xiangzhou District, Zhuhai  
Tel: 0756-3365087  
Fax: 0756-3334984

#### **CSP Investment Group:**

Address: No.11, Kexiang Road, Science City, Huangpu District, Guangzhou City, Guangdong Province  
Attn: Chen Haiqiang  
Tel: 13503064551



Shuangbai No.1:

Address: National Reform Double Hundred Development Fund, No.856, Block B, Enfei Technology Building, No. E12 Fuxing Road, Haidian District, Beijing

Attn: Xu Wenjie

Tel: +86 151 1000 1483

Fax: +86 (10) 8865 6500

Southern Airlines Capital:

Contact: Shi Chaomin

Address: 16/F, Southern Airlines Building, No. 68 Qixin Road, Baiyun District, Guangzhou

Tel: 020-86130432

Fax: 020-86121507

ZGA

Address: Office 415,SAGA Office Building, No.163 Jida Shihua West Road, Xiangzhou District, Zhuhai

Attn: Feng Qijun

Tel: 13926927993

### **Article 11 Supplementary Provisions**

1. Any changes hereto shall be agreed to by the Parties involved in writing through amiable negotiation, and shall constitute an integral part hereof, which shall prevail.

2. Any breach or delay by a party hereto in relation to any other party shall not be deemed to be a waiver of such party's rights and powers, nor shall it impair, affect or restrict all rights and powers enjoyed by such party pursuant hereto and applicable laws and regulations of China.

3. The invalidity, nullity and unenforceability of any provision hereof shall not affect or impair the validity, nullity and enforceability of the remaining provision.

**Article XII Dispute Resolution and Others**

1. The interpretation and performance hereof and the settlement of disputes shall be governed by the laws of China.

2. Any dispute arising out of or in connection herewith shall be settled by the Parties hereto in an expeditious manner via amicable negotiation; if such negotiation fails, either party may file a lawsuit to the people’s court with jurisdiction.

3. The Agreement is an integral part of the Appendix, which shall have the same legal effect as the main body hereof.

4. The Agreement shall come into effect after being sealed by the Parties and signed by the legal representative/managing partner or authorized representative.

5. The Agreement is made in four copies, two copies for each party, one copy for industrial and commercial registration and one copy for the record of China Beijing Equity Exchange, each copy has the same legal effect.

List of Attachments:

Annex 1. Articles of Association of Southern Airlines General Aviation Co., Ltd.

(This page is the signature page of the “Capital Increase and Equity Transfer Agreement” (No. [ ]) of China Southern Airlines, SAGA, CSP Investment Group, Shuangbai No.1, Southern Airlines Capital and ZGA, with no text)

China Southern Airlines: China Southern Airlines Company Limited (seal)

Legal representative/authorized representative (signature): \_\_\_\_\_

SAGA: Southern Airlines General Aviation Co., Ltd. (seal)

Legal representative/authorized representative (signature): \_\_\_\_\_

CSP Investment Group: China Southern Power Grid Industry Investment Group Co., Ltd. (seal)

Legal representative/authorized representative (signature): \_\_\_\_\_

Shuangbai No.1: Guoxin Shuangbai No.1 (Hangzhou) Equity Investment Partnership (Limited Partnership) (Seal)

Appointed representative/authorized representative of Executive Partner (signature) \_\_\_\_\_

Southern Airlines Capital: China Southern Airlines Group Capital Holding Limited (seal)

Legal representative/authorized representative (signature): \_\_\_\_\_

ZGA: Zhuhai General Aviation Investment Partnership (Limited Partnership) (Seal)

Appointed representative/authorized representative of Executive Partner (signature) \_\_\_\_\_

**SUBSIDIARIES OF CHINA SOUTHERN AIRLINES COMPANY LIMITED**

The particulars of the Company's principal subsidiaries as of December 31, 2020 are as follows:

<b>Name of Company</b>	<b>Jurisdiction of Incorporation</b>
Xiamen Airlines Company Limited	PRC
Shantou Airlines Company Limited	PRC
Zhuhai Airlines Company Limited	PRC
Guizhou Airlines Company Limited	PRC
Chongqing Airlines Company Limited	PRC
China Southern Airlines Henan Airlines Company Limited	PRC
Southern Airlines Freight and Logistic (Guangzhou) Co., Ltd.	PRC

**CERTIFICATION**

I, Ma Xulun, certify that:

1. I have reviewed this Annual Report on Form 20-F of China Southern Airlines Company Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit and risk management committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2021

By: /s/Ma Xulun  
Name: Ma Xulun  
Title: Chairman of the Board and President

**CERTIFICATION**

I, Yao Yong, certify that:

1. I have reviewed this Annual Report on Form 20-F of China Southern Airlines Company Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit and risk management committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2021

By: /s/Yao Yong

Name: Yao Yong

Title: Executive Vice President, Chief Financial Officer and Chief Accountant

**CERTIFICATION**

**Pursuant to 18 U.S.C. Section 1350  
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of China Southern Airlines Company Limited (the “Company”) on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ma Xulun, Chairman of the Board and President of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2021

By: /s/ Ma Xulun  
Name: Ma Xulun  
Title: Chairman of the Board and President

- \* This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.
- \* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION**

**Pursuant to 18 U.S.C. Section 1350  
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of China Southern Airlines Company Limited (the “Company”) on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Yao Yong, Executive Vice President, Chief Financial Officer and Chief Accountant of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2021

By: /s/ Yao Yong

Name: Yao Yong

Title: Executive Vice President, Chief Financial Officer and Chief Accountant

- \* This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.
- \* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.